HSBC Trust Company (UK) Limited
Registered No: 106294

Financial Statements for the year ended 31 December 2016

HSBC

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Contents

Strategic Report

Principal activities

HSBC Trust Company (UK) Limited (the Entity) is an authorised bank under the Financial Services and Markets Act 2000, authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'). The Entity's principal activity is to provide wealth management services and products to customers of HSBC Group in the UK including trusteeships. The Entity has no employees, and all related services are provided by the parent company.

Review of the Entity's business

During 2016 the Entity continued to deliver on strategic decisions as it sought to restructure, simplify and set the foundations for the sustainable growth of its business in future years. One of the impacts of this was lower year on year growth in income than in prior year. However, the repositioning of the Entity over the prior two years has seen the Entity, in its targeted client base, grow assets under management and associated revenues. This has been driven by an increase in referrals from existing Group clients. Part of the Entity's repositioning has seen a reduction of assets under management in non-core markets.

Performance

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

The profitability of the Entity has decreased year on year, with profit before tax reducing by 27% since last year. This is primarily due to the movement of client funds to clean share classes which completed in Q1 16. Consequently these funds no longer attract rebate income to the entity, only an account fee at a lower margin. In addition the probates and unit trust pension businesses were disposed in 2015.

Funds under management as at 31 December 2016 are up 7% compared to 31 December 2015, primarily due to strong market growth in the second half of 2016.

The Entity continued to make good progress on the major remediation programme for Trust charging, and an additional charge of £2,115,734 was made during 2016.

Key performance indicators

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

Financial KPIs

	2016	2015
Profit before tax (£'000)	**34,334**	47,399
Funds under management (£bn)	**11.1**	10.4
New business value (£bn)	**0.6**	1.0
Lost funds under management (£bn)	**0.8**	0.9
Total equity at year end (£'000)	**44**	62

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Entity are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in note 21 of the financial statements.

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

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

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

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

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

In respect of regulatory risk, the UK regulators may take further actions that could result in changes in industry practices, sales and pricing. On 1 January 2014 Capital Requirements Directive IV ('CRD IV') came into effect, which introduced in the EU the Basel III measures. Further information can be found in the Directors' Report - Capital Management.

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

Signed on behalf of the Board

D J Coke
Director

14 March 2017

Registered Office
8 Canada Square
London
E14 5HQ

Directors

The Directors who served during the year were as follows:

Name	Appointed	Resigned
D J Coke		
J Coyle	1/3/16	
D A Morse	16/3/16	
P M Spencer	11/4/16	

The Articles of Association of the Entity provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Entity against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

Dividends

Interim dividends of £43m (2015: £55m) were declared and paid during the year.

Significant events since the end of the financial year

The Entity's Directors will propose an interim dividend of £26m, on 14 March 2017, in respect of the year ended 31 December 2016. No other important events affecting the Entity have occurred since the end of the financial year.

Future developments

The Entity continues to work closely with its parent undertaking, HSBC Bank plc, to implement the optimum strategic solution for the provision of Wealth Management services to HSBC customers in the UK. As part of this development it is currently expected that the Premier Investment Management Service, Select Investment Fund platform, and the related Investment Funds Plan service, will be migrated to HSBC Bank plc in 2017. These services represent a significant proportion of the Entity's revenue.

Going concern basis

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

Financial instruments

The financial risk management objectives and policies of the Entity, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in note 21 of the Notes to the Financial Statements.

Capital management

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

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

The Basel III framework, similarly to Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The CRD IV legislation implement Basel II in the EU and, in the UK, the 'PRA rulebook CRR Firms Instrument 2013' transposed the various national discretions under the CRD IV legislation into UK law. The CRD IV and PRA legislation came into force on 1 January 2014.

Regulatory capital

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

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

The composition of regulatory capital is shown below:

	2016 £'000	2015 £'000
Tier 1 capital		
Shareholders' equity	**44,085**	62,367
Common Equity Tier 1	**44,085**	62,367
Tier 1 capital	**44,085**	62,367
Total regulatory capital	**44,085**	62,367
Risk-weighted assets (Unaudited)		
Credit and counterparty risk	**6,265**	8,695
Operational risk	**108,752**	133,118
Total	**115,017**	141,813
Capital ratios (Unaudited)		
Common equity tier 1 ratio	**38%**	44%
Tier 1 ratio	**38%**	44%
Total capital ratio	**38%**	44%

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

Disclosure of information to auditor

Each person who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Entity's auditor is unaware; and the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Entity's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

It was the first full year of PricewaterhouseCoopers LLP ('PwC') as external auditor following their appointment and year-end audit in 2015. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the Entity's auditor.

Statement of Directors' Responsibilities

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

The Directors are responsible for preparing, in accordance with applicable law and regulations, a Strategic Report, a Directors' Report and financial statements for each financial year.

The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and have elected to prepare the Entity's financial statements on the same basis.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that its financial statements comply with the Companies Act 2006.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Entity and to prevent and detect fraud and other irregularities.

Signed on behalf of the Board

D J Coke
Director
14 March 2017

Registered Office
8 Canada Square
London
E14 5HQ

Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Entity's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the 'Annual Report'), comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Entity'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.

Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited (continued)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Entity's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

21 March 2017

Income statement for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Interest income		**1,008**	1,622
Interest expense		**(172)**	(307)
Net interest income	2	**836**	1,315
Fee and commission income		**67,246**	83,516
Fee and commission expense		**(11,531)**	(12,417)
Net Fee income	2	**55,715**	71,099
Other operating (expense)/income	3	**(51)**	1,882
Net operating income	2	**56,500**	74,296
General and administrative expense		**(22,166)**	(26,897)
Total operating expenses		**(22,166)**	(26,897)
Profit before tax		**34,334**	47,399
Tax expense	6	**(9,616)**	(9,245)
Profit for the year		**24,718**	38,154

The notes on pages 15 to 41 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2016

All operations are continuing. There has been no other comprehensive income or expenses in 2016 (2015: Nil).

Statement of financial position as at 31 December 2016

	Notes	**2016**	2015
		£'000	£'000
Assets			
Loans and advances to banks	9	**244,313**	343,193
Loans and advances to customers	10	**2,039**	2,943
Prepayments and accrued income		**5,123**	4,604
Investments in subsidiary undertakings	11	**5**	5
Other assets	12	**4,088**	4,934
Total assets		**255,568**	355,679
Liabilities and equity			
Liabilities			
Customer accounts	13	**181,285**	260,864
Accruals, deferred income and other liabilities	14	**10,281**	17,379
Current tax liabilities		**19,307**	9,224
Provisions	15	**610**	5,845
Total liabilities		**211,483**	293,312
Equity			
Called up share capital	16	**15,000**	15,000
Share premium account		**100**	100
Retained earnings		**28,985**	47,267
Total equity		**44,085**	62,367
Total equity and liabilities		**255,568**	355,679

The notes on pages 19 to 41 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 14 March 2017 and were signed on its behalf by:

D J Coke
Director

Statement of cash flows for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000 (Restated)
Cash flows from operating activities			
Profit before tax		**34,334**	47,399
Adjustments for:			
- change in operating assets	17	**1,231**	6,463
- change in operating liabilities	17	**(91,904)**	(176,955)
- tax paid		**459**	(12,577)
Net cash used in operating activities		**(55,880)**	(135,670)
Cash flows from financing activities			
Dividends paid		**(43,000)**	(55,000)
Net cash (used in) financing activities		**(43,000)**	(55,000)
Net decrease in cash and cash equivalents		**(98,880)**	(190,670)
Cash and cash equivalents brought forward		**343,193**	533,863
Cash and cash equivalents carried forward	17	**244,313**	343,193

The notes on pages 15 to 41 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
2016				
At 1 January 2016	15,000	100	47,267	62,367
Profit for the year	-	-	24,718	24,718
Total comprehensive income for the year	-	-	24,718	24,718
Dividends to shareholders	-	-	(43,000)	(43,000)
At 31 December 2016	15,000	100	28,985	44,085

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
2015				
At 1 January 2015	15,000	100	64,113	79,213
Profit for the year	-	-	38,154	38,154
Total comprehensive income for the year	-	-	38,154	38,154
Dividends to shareholders	-	-	(55,000)	(55,000)
At 31 December 2015	15,000	100	47,267	62,367

The notes on pages 15 to 41 form an integral part of these financial statements.

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

1 Basis of preparation and summary of significant accounting policies

A Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these financial statements and the Entity's application of IFRS results in no differences between IFRSs as issued by the IASB and IFRS as endorsed by the EU.

Standards adopted during the year ended 31 December 2016

There were no new standards applied during the year ended 31 December 2016. During 2016, the Entity adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Entity.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs through the Annual Improvements to IFRSs 2012-2014 cycle and in a series of stand-alone amendments, one of which has not yet been endorsed for use in the EU. The Entity has not applied any of the amendments effective after 31 December 2016 and it expects they will have an immaterial impact, when applied, on the financial statements of the Entity.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9 and IFRS 15 have been endorsed for use in the EU and IFRS 16 has not yet been endorsed.

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

Classification and measurement
The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on an assessment of financial assets performed to date and expectations around changes to balance sheet composition, the Entity expects that the overall impact of any change will not be significant.

For financial liabilities designated to be measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

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

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

Transition
The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Entity does not intend to restate comparatives. The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The Entity is assessing the impact that the impairment requirements will have on the financial statements.

The Entity intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Financial Statements 2017. Until reliable estimates of the impact are available, particularly on the interaction with the regulatory capital requirements, further information on the expected impact on the financial position and on capital planning cannot be provided.

(c) Changes to the presentation of the Financial Statements and Notes on the Financial Statements

In order to make the financial statements and notes thereon easier to understand, the Entity has changed the location and the wording used to describe certain accounting policies within the notes, removed certain immaterial disclosures and changed the order of certain sections.

In applying materiality to financial statement disclosures, we consider both the amount and nature of each item. The main changes to the presentation of the financial statements and notes thereon in 2016 are as follows:

- Credit risk: the order of the section has been changed to improve understanding and rationalised certain disclosures to remove duplication and focus on material information.
- Note 2 Summary of significant accounting policies: accounting policies have been placed, whenever possible, within the relevant Notes on the financial statements, and the changes in wording are intended to more clearly set out the accounting policies. These changes in the wording do not represent changes in accounting policies.
- Critical accounting policies: replaced 'Critical accounting policies' with 'Critical accounting estimates and judgements' and placed them within the relevant Notes alongside the significant accounting policy to which they relate. The new approach meets the reporting requirements of IAS 1 'Presentation of Financial Statements'.

(d) Presentation of information

Capital disclosures under IAS 1 'Presentation of Financial Statements' ('IAS 1') have been included in the audited sections of the 'Report of the Directors: Capital Management' on page 4.

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

The functional currency of the Entity is Sterling which is also the presentation currency of the financial statements of the Entity.

(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 listed below as the critical accounting estimates and judgements, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2016 Financial Statements. Management's selection of the Entity's accounting policies which contain critical estimates and judgements is listed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

- Provisions: refer to Note 15;

(f) Going concern

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

(g) 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 that are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

B Summary of significant accounting policies

(a) Loans and advances to banks and customers

These include loans and advances originated by the Entity, 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 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 allowance.

(b) Impairment of loans and advances to banks and customers

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans or on groups of loans assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired loans on the balance sheet. Losses which may arise from future events are not recognised.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

Write-off of loans and advances

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

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

(c) Operating income

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

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

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

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

(d) General Information

HSBC Trust Company (UK) Limited is an entity domiciled and incorporated in England and Wales.

(e) Historical cost convention

These financial statements has been prepared on a historical cost basis.

2 Operating Profit

Operating profit is stated after the following items of income, expense, gains and losses, and loan impairment charges and other credit risk provisions:

	2016 £'000	2015 £'000
Fee income		
Fees earned on trust and other fiduciary activities where the Entity holds or invests assets on behalf of its customers	58,354	61,993
Fee expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	172	307

3 Other operating income/(expense)

	2016 £'000	2015 £'000
Gain/(Loss) on sale of probate services business	(51)	1,882
	(51)	1,882

4 Remuneration of Directors

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

	2016 £'000	2015 £'000
Salaries and other emoluments	310	241
Year ended 31 December	310	241

No Director's exercised share options over HSBC Holdings plc ordinary shares during the year (2015: one).

Retirement benefits are accruing to three (2015: two) Directors under money purchase schemes in respect of Directors' qualifying services. Contributions of £ 49,727 were made during the year to money purchase arrangements in respect of Directors' qualifying services (2015: £ 25,691).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Entity's ultimate parent Entity, HSBC Holdings plc. The cost of any conditional awards under the HSBC Share Plan and the HSBC Plan 2011 ('the Plans') is recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2016.

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

	2016 £'000	2015 £'000
Salaries and other emoluments	193	215
Year ended 31 December	**193**	215

The highest paid Director did not exercise share options over HSBC Holdings plc ordinary shares during the year. Pension contributions of £ 12,637 (2015: £ 25,691) were made by the Entity in respect of services by the highest paid Director during the year.

5 Auditors' remuneration

	2016 £'000	2015 £'000
Audit fees for HSBC Trust Company (UK) Limited statutory audit:		
- Fees relating to current year	41	41
Fees for other services provided to the Entity:		
- Other audit-related services pursuant to such legislation	231	47
Total fees payable	**272**	88

6 Tax

Accounting policy

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 it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and any adjustment to tax payable in respect of previous years. The Entity 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 in which the assets will be realised or the liabilities settled. Current and deferred tax is calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Tax charged to the income statement

	2016 £'000	2015 £'000
Current tax		
UK Corporation tax		
- for this year	9,616	9,598
- adjustments in respect of prior years	-	(358)
Total current tax	9,616	9,240
Deferred tax		
Origination and reversal of temporary differences	-	5
Total deferred tax	-	5
Total tax charged to income statement	9,616	9,245

The UK corporation tax rate applying to the Company was 20% (2015: 20.25%).

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2017 will reduce from 20% to 19% to be followed by a further 1% reduction to 18% for the year beginning 1 April 2020. These reductions in the corporation tax rate were enacted in the Finance (No 2) Act 2015.

Tax reconciliation

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

	2016 £'000	Percentage of overall profit before tax	2015 £'000	Percentage of overall profit before tax
Profit before tax	34,342		47,399	
Tax at 20.00% (2015: 20.25%)	6,868	20%	9,598	20%
Adjustments in respect of prior period liabilities	-	nil	(358)	1%
Banking surcharge	2,748	8%	-	nil
Permanent disallowables	-	nil	5	nil
Total tax charged to income statement	9,616	28%	9,245	20%

The UK government introduced a banking surcharge on banking companies in the Finance (No 2) act 2015 to apply with effect from 1 January 2016. The Entity meets the definition of a banking company and therefore the effective tax rate for 2016 was 28% as a result of the 8% banking surcharge.

7 Deferred tax

	Property, plant and equipment £'000	Total £'000
At 1 January 2016	-	-
At 31 December 2016	-	-

	Property, plant and equipment £'000	Total £'000
At 1 January 2015	5	5
Income statement (expense)/credit	(5)	(5)
At 31 December 2015	-	-

8 Dividends

	2016		2015	
Dividends declared on ordinary shares	**£ per share**	**£'000**	£ per share	£'000
First interim dividend in respect of the current year	**1.67**	**5,000**	-	-
Interim dividend in respect of the previous year	**12.67**	**38,000**	18.33	55,000

9 Loans and advances to banks

	2016 £'000	2015 £'000
Loans and advances to banks	**244,313**	343,193
Loans and advances to banks	**244,313**	343,193

10 Loans and advances to customers

	2016 £'000	2015 £'000
Gross loans and advances to customers	**2,039**	2,943
Loans and advances to customers	**2,039**	2,943

The following table analyses loans and advances to customers by industry sector:

	2016		2015	
	Gross loans and advances to customers £'000	**Gross loan by industry as % of total gross loans %**	Gross loans and advances to customers £'000	Gross loan by industry as % of total gross loans %
Personal				
Other personal	**2,039**	**100**	2,943	100
As at 31 December	**2,039**	**100**	2,943	100

11 Investment in subsidiary undertakings

Accounting policy

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

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

	Country of incorporation	Interest in Equity Capital	Share Class	No. of shares	Address
Midland Nominees Limited	England	100%	Ordinary £1	100	*8 Canada Square, London E14 5HQ, United Kingdom*
Turnsonic (Nominees) Limited	England	100%	Ordinary £1	2	*8 Canada Square, London E14 5HQ, United Kingdom*
St. Cross Trustees Limited	England	100%	Ordinary £1	5,000	*8 Canada Square, London E14 5HQ, United Kingdom*

12 Other assets

	2016 £'000	2015 £'000
Amounts due from fellow subsidiaries	923	3,249
Other assets	3,165	1,685
	4,088	4,934

Amounts due from fellow subsidiary undertakings are unsecured and repayable on demand.

13 Customer accounts

	2016 £'000	2015 £'000
Retail customers		
Customer deposits	181,285	260,864
	181,285	260,864

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

14 *Accruals, deferred income and other financial liabilities*

	2016	2015
	£'000	£'000
Accruals and deferred income	1,114	1,986
Amounts owed to immediate parent undertaking	3,527	1,645
Amounts owed to other group companies	3,027	2,909
Other liabilities	2,613	10,839
	10,281	17,379

Amounts repayable to fellow subsidiary undertakings are unsecured, interest free and have no fixed date of repayments.

15 Provisions

Accounting policy

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

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations.

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

	Customer redress provision £'000
At 1 January 2016	**5,845**
Increase in provision	2,963
Provision utilised	(7,904)
Amounts reversed	(294)
At 31 December 2016	**610**

	Customer redress provision £'000
At 1 January 2015	24,182
Increase in provision	1,687
Provision utilised	(19,914)
Amounts reversed	(110)
At 31 December 2015	5,845

Customer redress - Trusts charging

In 2007 the Entity commenced a review in respect of over-charging trust fees in prior years. Work on this project is progressing and further remediation payments to customers were provided during the year. The total provision is based on a calculation extrapolated from a sample of cases, and the key assumptions relate to traceability of customers, average redress per customer and achievability of the redress calculation. Uncertainties arise from factors affecting the timing and achievability of notifying and reimbursing those affected. It is possible that outcomes arising within the next financial year could change the carrying value of this provision.

16 Called up share capital

Accounting policy

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.

	2016 £'000	2015 £'000
Issued, allotted and fully paid up		
3,000 Ordinary shares of £5 each		
As at 1 January and 31 December	**15,000**	15,000
Authorised:		
3,000 Ordinary shares of £5 each		
As at 1 January and 31 December	**15,000**	15,000

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

Accounting policy

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.

	2016 £'000	2015 £'000
a) Change in operating assets		
Change in prepayments and accrued income	(519)	474
Change in loans and advances to customers	904	(783)
Change in other assets	846	6,772
	1,231	6,463

	2016 £'000	2015 £'000 (Restated)
b) Change in operating liabilities		
Change in accruals and deferred income	(872)	(977)
Change in customer accounts	(79,579)	(147,155)
Change in other liabilities	(11,453)	(28,823)
	(91,904)	(176,955)

	2016 £'000	2015 £'000
c) Cash and cash equivalents comprise		
Loans and advances to banks of one month or less	244,313	343,193
	244,313	343,193

18 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost.

The following table analyses the carrying amount of financial assets and liability by category as defined in IAS 39 and by balance sheet heading:

At 31 December 2016	Loans and receivables	Financial assets and liabilities at amortised cost	Total
	£'000	£'000	£'000
Assets			
Loans and advances to banks	244,313	-	244,313
Loans and advances to customers	2,039	-	2,039
Other assets	-	4,088	4,088
Accrued income	-	5,123	5,123
Total financial assets	246,352	9,211	255,563
Total non financial assets			5
Total assets			255,568
Liabilities			
Customer accounts	-	181,285	181,285
Accruals, deferred income and other liabilities	-	10,281	10,281
Provisions	-	610	610
Total financial liabilities	-	192,176	192,176
Total non financial liabilities			19,307
Total liabilities			211,483

At 31 December 2015	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Assets			
Loans and advances to banks	343,193	-	343,193
Loans and advances to customers	2,943	-	2,943
Other assets	-	4,934	4,934
Accrued income	-	4,604	4,604
Total financial assets	346,136	9,538	355,674
Total non financial assets			5
Total assets			355,679
Liabilities			
Customer accounts	-	260,864	260,864
Accruals, deferred income and other liabilities	-	17,379	17,379
Provisions	-	5,845	5,845
Total financial liabilities	-	284,088	284,088
Total non financial liabilities			9,224
Total liabilities			293,312

19 Fair value of financial instruments not carried at fair value

For all financial instruments, the fair value is equal to the carrying value in the Balance Sheet, that is because they are short-term in nature or reprice to current market rates frequently.

Determination of fair value

Fair values are determined according to the following hierarchy:

(a) Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.

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

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

		Fair values			
		Valuation techniques			
	Carrying amount	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
At 31 December 2016					
Assets					
Loans and advances to customers	**2,039**	-	**2,039**	-	**2,039**
Loans and advances to banks	**244,313**	-	**244,313**	-	**244,313**
Liabilities					
Customer accounts	**181,285**	-	**181,285**	-	**181,285**

		Fair values			
		Valuation techniques			
	Carrying amount	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
At 31 December 2015					
Assets					
Loans and advances to customers	2,943	-	2,943	-	2,943
Loans and advances to banks	343,193	-	343,193	-	343,193
Liabilities					
Customer accounts	260,864	-	260,864	-	260,864

20 Offsetting of financial assets and financial liabilities

Accounting policy

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

Financial assets

				Amounts not offset in the balance sheet			
	Gross amounts £'000	Amounts offset £'000	Amounts reported in the balance sheet £'000	Financial Instruments £'000	Non-cash collateral £'000	Cash collateral £'000	Net amount £'000
Loans and advances to customer at amortised cost	**2,039**	**-**	**2,039**	**2,039**	**-**	**-**	**2,039**
At 31 December 2016	**2,039**	**-**	**2,039**	**2,039**	**-**	**-**	**2,039**
Loans and advances to customer at amortised cost	2,943	-	2,943	2,943	-	-	2,943
At 31 December 2015	2,943	-	2,943	2,943	-	-	2,943

Financial Liabilities

				Amounts not offset in the balance sheet			
	Gross amounts £'000	Amounts offset £'000	Amounts reported in the balance sheet £'000	Financial Instruments £'000	Non-cash collateral £'000	Cash collateral £'000	Net amount £'000
Customer accounts at amortised cost	**181,285**	**-**	**181,285**	**181,285**	**-**	**-**	**181,285**
At 31 December 2016	**181,285**	**-**	**181,285**	**181,285**	**-**	**-**	**181,285**
Customer accounts at amortised cost	260,864	-	260,864	260,864	-	-	260,864
At 31 December 2015	260,864	-	260,864	260,864	-	-	260,864

21 Management of financial risk

All of the Entity'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 Entity as a going concern.

a) Credit risk management

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

Within the overall framework of the HSBC Group policy, the Entity has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

The management of the Entity is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets. The Entity's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

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

I. Maximum exposure to credit risk

	2016			2015		
	Maximum exposure	Offset	Exposure to credit risk (net)	Maximum exposure	Offset	Exposure to credit risk (net)
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances at amortised costs	246,352	-	246,352	346,136	-	346,136
Other assets	9,211	-	9,211	9,538	-	9,538
As at 31 December	255,563	-	255,563	355,674	-	355,674

II. Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions (see loans and advances to customers by industry table on Note 12). The Entity uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing. Collateral and other credit enhancements.

96.3% (2015: 96.5%) of the credit risk exposure is to the parent undertaking, HSBC Bank plc.

III. Credit quality

The 5 credit quality classifications defined below each encompass a range of more granular, internal credit rating grades, as well as external rating.

Quality classification	External credit rating
Strong	A- and above
Good	BBB+ and BBB-
Satisfactory	BB+ and B and unrated
Sub-standard	A- and below
Impaired	Impaired

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

- Strong: exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Personal accounts operate within product parameters and only exceptionally show any period of delinquency.
- Good: exposures require closer monitoring and demonstrate good capacity to meet financial commitments, with low default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.
- Satisfactory: exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with a moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.
- Sub-standard: exposures show varying degrees of special attention and default risk is of greater concern. Personal portfolio segments show longer delinquency periods of generally up to 90 days past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.
- Impaired: exposures have been assessed, individually as impaired.

	Neither past due nor impaired		
	Strong £'000	Good £'000	Total £'000
At 31 December 2016			
Loans and advances to banks	244,313	-	244,313
Loans and advances to customers	-	2,039	2,039
	244,313	**2,039**	**246,352**
At 31 December 2015			
Loans and advances to banks	343,193	-	343,193
Loans and advances to customers	-	2,943	2,943
	343,193	2,943	346,136

IV. Collateral and other credit enhancements

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

A summary of the loan book analysed by collateral type is provided below:

At 31 December	2016	2015
	£'000	£'000
Unsecured	246,352	346,136
Gross loans and advances to banks and customers	246,352	346,136

b) Liquidity risk management

Liquidity risk is the risk that the Entity 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 Entity utilises customer deposits and funding from HSBC Bank plc to source its Sterling denominated funds. The Entity seeks to match availability of funding to the Entity's requirements, and any shortfalls are sourced by HSBC Bank plc at that time. The Entity's regulatory liquidity position is managed as part of the HSBC Bank plc Defined Liquidity Group, under which members agree to provide liquidity support when necessary.

The Entity funds its asset base from a combination of capital resources, customer accounts and short term borrowings from its intermediate parent Company, HSBC Bank plc.

Since 1 April 2013 the Entity is part of the Defined Liquidity Company ('DLG') of HSBC Bank plc. The Entity has therefore no direct obligation to fulfil the liquidity requirement of the PRA. Instead, the liquid assets of the Entity support the wider liquidity buffer of the DLG. The Entity is also part of the internal liquidity control and management structure of HSBC Bank plc.

For risk monitoring purposes, management monitor the ratio of net liquid assets to customer accounts. Net liquid assets are defined as the difference between liquid assets and liabilities falling due within three months. Target and trigger liquidity ratios are set for the Entity by HSBC Bank plc

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

31 December 2016	On demand	Due within 3 months	Due between 3-12 months	Undated	Total
	£000's	£000's	£000's	£000's	£000's
Assets					
Loans and advances to banks	244,313	-	-	-	244,313
Loans and advances to customers	2,039	-	-	-	2,039
Accrued income and other financial assets	9,211	-	-	-	9,211
Non-financial assets	-	5		-	5
Total as at 31 December 2016	255,563	5	-	-	255,568

31 December 2016	On demand	Due within 3 months	Due between 3-12 months	Undated	Total
	£000's	£000's	£000's	£000's	£000's
Liabilities and Equity					
Customer accounts	181,285	-	-	-	181,285
Accruals and other financial liabilities	10,265	16	-	-	10,281
Provisions	-	-	-	610	610
Non-financial liabilities	-	-	19,307	-	19,307
Equity	-	-	-	44,085	44,085
Total as at 31 December 2016	191,550	16	19,307	44,695	255,568

31 December 2015	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Undated £000's	Total £000's
Assets					
Loans and advances to banks	343,193	-	-	-	343,193
Loans and advances to customers	2,943	-	-	-	2,943
Accrued income and other financial assets	9,538	-	-	-	9,538
Non financial assets	-	5	-	-	5
Total as at 31 December 2015	355,674	5	-	-	355,679

31 December 2015	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Undated £000's	Total £000's
Liabilities and Equity					
Customer accounts	260,864	-	-	-	260,864
Accruals and other financial liabilities	17,025	354	-	-	17,379
Provisions	-	-	-	5,845	5,845
Non financial liabilities	-	-	9,224	-	9,224
Equity	-	-	-	62,367	62,367
Total as at 31 December 2015	277,890	354	9,224	68,212	355,679

c) Market risk management

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

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

The Entity manages market risk through risk limits approved by the Entity's Executive Committee and adopted by the Entity's Board. An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

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

Market price risk

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

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

Foreign exchange risk

The Entity has no material foreign exchange risk as all balances and transactions are in Sterling.

Interest rate risk

Interest rate risk is the risk that a change in interest rates will affect the Entity's performance. Deposits received from customers are at variable rates of interest, generally linked to customer rates offered by HSBC Bank plc. The Entity places all funds with its parent, HSBC Bank plc. The Entity manages its interest rate risk by placing deposits with its parent on call deposits or for fixed periods of up to 3 months.

A change of 100bp in interest rates at the reporting date would have increased/decreased profits by £2.4m (2015: £3.4m). This analysis assumes that other variables remain constant.

22 Legal proceedings and regulatory matters

The Entity is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the Entity considers that none of these matters are material.

The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2016 (see Note 15). Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for the Entity's legal proceedings and regulatory matters as a class of contingent liabilities.

23 Related party transactions

a) Transactions with Directors and other Key Management Personnel

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

Compensation of Key Management Personnel

The Company does not have any direct employees. The Directors and staff are all employees of other Group companies. The costs recharged to the Company include the following amounts in respect of key management compensation relating to those individual's services to the Company:

	2016 £'000	2015 £'000
Short-term employee benefits	193	215
Post-employment benefits	13	26

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

	2016	2015
	Balance at 31 December £'000	Balance at 31 December £'000
Assets		
Loans and advances to banks	244,313	343,193
Other assets	-	2,365
Liabilities		
Other liabilities	3,527	1,643

b) Transactions with other related parties

	2016 £'000	2015 £'000
Income statement		
Interest income	756	1,293
General and administrative expenses	13,068	15,896

Transactions detailed below include amounts due to/from Other Group Companies.

	2016 Balance at 31 December £'000	2015 Balance at 31 December £'000
Assets		
Other assets	**923**	905
Liabilities		
Other liabilities	**3,027**	2,911

	2016 £'000	2015 £'000
Income statement		
Fee income	**9,641**	22,148
Fee expense	**11,740**	12,358
General and administrative expenses	**(4)**	(4)

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

24 Parent undertakings

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

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

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

8 Canada Square
London
E14 5HQ
www.hsbc.com

25 Events after the balance sheet date

The Entity's Directors will propose an interim dividend of £26m, on 14 March 2017, in respect of the year ended 31 December 2016. There are no other significant events after the balance sheet date.

26 Client segregated money

The Entity holds cash in respect of client investments in ISAs, structured products and managed portfolios in segregated trust accounts with HSBC Bank plc and other external banks. As at 31 December 2016 the cash amounted to £150,102,996 (2015: £180,250,374). The cash is not shown as the Entity's assets or liabilities respectively as it is held on behalf of clients.

27 Restatement of comparative information

The change in operating liabilities figure for 2015 has been restated to properly reflect the adjustment made for structured deposits as noted in last year's financial statements.

Comparative balances have been restated as follows:

Cash flow statement (extract)

	Balance at 31 December 2015 (prev. stated) £'000	Increase / Decrease £'000	Balance at 31 December 2015 (Restated) £'000
Change in operating liabilities	(214,867)	37,912	(176,955)
Net cash (used in) / generated from operating activities	(173,582)	37,912	(135,670)
Net decrease in cash and cash equivalents	(228,582)	37,912	(190,670)