HSBC Finance (Netherlands)

Registration No: 2815114

Annual Report and Financial Statements for the year ended 31 December 2022

HSBC

HSBC Finance (Netherlands)

Annual Report and Financial Statements for the year ended 31 December 2022

Contents

Strategic Report

Principal activities

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

During the year ended 31 December 2022, the Company continued to be an investment holding company.

Review of the Company's business

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

The reserves available for distribution as at 31 December 2022 were $1,175m (2021: $744m).

No dividend was declared or paid during the year (2021: $1,614m).

Performance

The performance and position of the Company for the year ended 31 December 2022 and the state of the Company's financial affairs at that date are set out on pages 8 to 20.

The net asset value of the Company as at 31 December 2022 amounts to $1,506m (2021: $1,075m). During the year, the Company has made an additional investment of $430m in HSBC Holdings B.V. to fund the acquisition of L&T Investment Management Limited. The funding was provided by the Company's parent HSBC Holdings plc in the form of gift. This transaction increased the cost of investments in subsidiaries by $430m with a corresponding increase to capital contribution reserve.

The results of the Company shows a profit before tax of $1m during the year (2021: $282m), primarily due to dividends received in respective years.

The Company received the following dividends from other group undertakings:

	2022 $'000	2021 $'000
Dividends from ordinary shares		
HSBC Asia Holdings B.V.	–	77,100
HSBC Holdings B.V.	–	200,000
HSBC Electronic Data Processing India Private Limited	1,087	2,957
	1,087	280,057

Section 172 statement

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

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

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

The principal decision taken by the company during the year was further investment of $430m in HSBC Holdings B.V. with the purpose of funding the acquisition of L&T Investment Management Limited by its indirect subsidiary. The funding was provided by the Company's parent HSBC Holdings plc in the form of gift. In making the decision, the Board took into consideration the long-term interests of the Company and the interests of the Group as a whole.

Stakeholder engagement

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

Key performance indicators

As the Company is managed as part of the HSBC Group, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC Holdings plc. Ongoing review of the performance of the Company is carried out by monitoring the subsidiary performance, including cash flows to and from each subsidiary.

Principal risks and uncertainties

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks are set out in Note 14 on the financial statements.

The Company's exposures to liquidity and market risks (including foreign currency risks and interest rate risk) are limited due to the nature of its business, which is predominantly investing in or financing of group companies. These transactions are generally funded by way of equity obtained from the parent company.

On behalf of the Board

J Bingham
Director

29 June 2023

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

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

Name	Appointed
J Bingham	1 July 2020
R Boyns	1 July 2020
D Millar	1 July 2020

The Articles of Association of the Company contain a qualifying third-party indemnity provision, which entitles Directors and other officers to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year and up to the date of approval of the financial statements but have not been utilised by the Directors. Additionally, all Directors have the benefit of Directors' and officers' liability insurance.

Dividends

No dividend was declared or paid during the year (2021: $1,614m).

Significant events since the end of the financial year

In March 2023, all classes of preference shares held by the Company in its subsidiaries HSBC Holdings B.V. (HHBV) and HSBC Asia Holdings B.V. (HAHB) were converted into ordinary shares as detailed below:

In HHBV, 9,227,616 preference shares (€453.78 nominal value per share) were converted to 9,227,616 ordinary shares (€453.78 nominal value per share) and in HAHB, 22,541,041 preference shares (€1,000 nominal value per share) were converted to 450,820,820 ordinary shares (€50 nominal value per share).

In April 2023, the Company received an interim dividend from its subsidiaries HHBV ($452.6m) and HAHB ($266.7m) and in turn paid an interim dividend of $722.8m to HSBC Holdings plc.

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

Future developments

No change in the Company's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company have 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, capital requirements 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 14 of the Notes on the financial statements.

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the HSBC Group to provide necessary capital resources which are therefore managed on a Group basis.

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

Independent auditors

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

Statement of directors' responsibilities in respect of the financial statements

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

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 UK-adopted international accounting standards.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 accordance with section 418 of the Companies Act 2006, the Directors' report includes a statement. In the case of each Director in office as at the date the Report of the Directors is approved, that:

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

On behalf of the Board

J Bingham
Director
29 June 2023

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

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

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Finance (Netherlands)'s financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2022; the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Identifying and testing journal entries posted that have greater risk of fraud such as those featuring unexpected account combinations, journals prepared and approved by the same users, journals created by unexpected users and journals featuring unusual words. We also incorporated an element of unpredictability into our testing.
- challenging estimates and judgements made by management in their accounting estimates;
- reviewing minutes of meetings of those charged with governance; and
- review of the financial statement disclosures to underlying supporting documentation.

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

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/auditors responsibilities. 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 obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Timothy Lawrence

Timothy Lawrence (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2023

Financial statements

Income statement for the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Interest income		**347**	–
Interest expense		**–**	(2,054)
Net interest income/(expense)		**347**	(2,054)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	2	**–**	3,628
Dividend income		**1,087**	280,057
Net operating income		**1,434**	281,631
General and administrative expenses		**(1)**	(18)
Total operating expenses		**(1)**	(18)
Profit before tax		**1,433**	281,613
Tax (expense)/credit	6	**(126)**	1,436
Profit for the year		**1,307**	283,049

Statement of comprehensive income for the year ended 31 December 2022

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (2021: nil).

Balance sheet at 31 December 2022
Registration No: 2815114

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents		**22,821**	21,669
Investments in subsidiaries	9	**1,483,539**	1,053,539
Total assets		**1,506,360**	1,075,208
Liabilities and equity			
Liabilities			
Accruals, deferred income and other liabilities	10	**–**	124
Current tax liabilities		**66**	97
Total liabilities		**66**	221
Equity			
Called up share capital[1]	12	**–**	–
Other reserves		**979,200**	549,200
Retained earnings		**527,094**	525,787
Total equity		**1,506,294**	1,074,987
Total liabilities and equity		**1,506,360**	1,075,208

1 Called up share capital is $34 (2021: $34) (Note 12) but has been rounded down to nil in the disclosure above, which displays all balances in $000s.

The financial statements and its accompanying notes on pages 8 to 20 were approved by the Board of Directors on 29 June 2023 and signed on its behalf by:

J Bingham
Director

Statement of cash flows for the year ended 31 December 2022

	2022 $'000	2021 $'000
Cash flows from operating activities		
Profit before tax	**1,433**	281,613
Adjustments for:		
Fair value movements in financial assets designated at fair value	**–**	(1,299)
Change in operating assets	**–**	209
Change in operating liabilities	**(124)**	(219)
Taxes paid	**(157)**	(420)
Net cash generated from operating activities	**1,152**	279,884
Cash flows from investing activities		
Purchase of interest in subsidiaries	**(430,000)**	–
Proceeds from disposal of subsidiary	**–**	1,336,891
Proceeds on disposal of investments designated at fair value	**–**	260,671
Net cash (used in)/generated from investing activities	**(430,000)**	1,597,562
Cash flows from financing activities		
Loans from/(repayments to) other group undertakings	**–**	(250,000)
Capital contribution	**430,000**	–
Dividends paid	**–**	(1,613,992)
Net cash generated from/(used in) financing activities	**430,000**	(1,863,992)
Net increase in cash and cash equivalents	**1,152**	13,454
Cash and cash equivalents as at 1 January	**21,669**	8,215
Cash and cash equivalents as at 31 December	**22,821**	21,669
Cash and cash equivalents comprise		
Cash at bank with HSBC undertakings	**22,821**	21,669

Interest and dividend received/(paid)

	2022 $'000	2021 $'000
Interest and dividends		
Interest paid	**–**	(2,238)
Interest received	**347**	2,538
Dividends received	**1,087**	280,057

Statement of changes in equity for the year ended 31 December 2022

			Other reserves	
	Called up share capital	Retained earnings	Capital contribution reserve	Total equity
	$'000	$'000	$'000	$'000
At 01 Jan 2022	**–**	**525,787**	**549,200**	**1,074,987**
Profit for the year	–	**1,307**	–	**1,307**
Total comprehensive income for the year	–	**1,307**	–	**1,307**
Capital contribution	–	–	**430,000**	**430,000**
At 31 Dec 2022	–	**527,094**	**979,200**	**1,506,294**
At 01 Jan 2021	–	1,856,730	549,200	2,405,930
Profit for the year	–	283,049	–	283,049
Total comprehensive income for the year	–	283,049	–	283,049
Dividends to shareholders	–	(1,613,992)	–	(1,613,992)
At 31 Dec 2021	–	525,787	549,200	1,074,987

Called up share capital

Called up share capital is $34 (2021: $34) (Note 12) but has been rounded down to nil in the disclosure above, which displays all balances in $000s.

Capital contribution reserve

HSBC Holdings plc gifted $430m to the Company as a capital contribution, which was used to increase the investment in its subsidiary HSBC Holdings B.V. during the year (2021: nil).

Dividend per share

No dividend was paid during the year (2021: $84.9m per share).

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

Notes on the Financial Statements

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006. There were no unendorsed standards effective for the year ended 31 December 2022 affecting the Company's financial statements.

Standards adopted during the year ended 31 December 2022

IFRS adoptions

There were no new accounting standards or interpretations that had a significant effect on the Company in 2022. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2022 that are applicable to the Company. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2023 and 1 January 2024. Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

New IFRSs

There are no new IFRSs published by the IASB which are effective from 1 January 2022 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. Unless otherwise specified, all $ symbols represent US dollars.

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

(d) Presentation of information

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

All amounts have been rounded to the nearest thousand unless otherwise stated.

The financial statements present information about the Company as an individual undertaking and not about its group. The Company is not required to prepare consolidated financial statements by virtue of the exemption conferred by section 400 of the Companies Act 2006. The consolidated financial statements of the ultimate parent company, HSBC Holdings plc, are available at www.hsbc.com.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' in section 1.2 below, 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 estimates and judgements from those reached by management for the purposes of these financial statements.

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

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company have 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, capital requirements and capital resources.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by HSBC for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

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

Non-interest income and expense

Dividend income is recognised when the right to receive payment is established.

(b) Investments in subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. For the purpose of determining this classification, the Company is considered to have control of an entity when it is exposed, or has rights to variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity.

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

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• *The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management retests for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.*	• The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to the investment. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. • Key assumptions used in estimating impairment in subsidiaries are described in Note 9.

Impairment is reversed only when there has been a change in the estimates used to determine the value in use since the last impairment loss was recognised, and management can rely upon those estimates with reasonable certainty.

(c) Valuation of financial instruments

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

However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Company recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable or the Company enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Company manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

(d) Financial instruments measured at amortised cost

Loans from other Group undertakings

Loans from other group undertakings are recognised when cash is advanced or contractual arrangements are entered into, which is generally on the trade date. These liabilities are initially measured at fair value less directly attributable transaction costs. The Company derecognises the financial liability when the Company obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

Financial liabilities

Amounts owed to other group undertakings represent financial liabilities and are included within trade and other payables. Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provision of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

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

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch.
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Company enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Company enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' or 'Changes in fair value of designated debt and related derivatives' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

(f) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement as 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 in which the assets will be realised or the liabilities settled.

In assessing the probability and sufficiency of future taxable profit, management consider the availability of evidence to support the recognition of deferred tax assets taking into account the inherent risks in long-term forecasting and drivers of recent history of tax losses where applicable. We also consider the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

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

(g) Provisions, contingent liabilities and guarantees

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Contingent liabilities related to legal proceedings or regulatory matters are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(h) 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.

(i) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

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

	2022	2021
	$'000	$'000
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	3,628

3 Employee compensation and benefits

The Company has no employees and hence no staff costs (2021: nil).

4 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2021: 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.

5 Auditors' remuneration

Certain expenses including auditors' remuneration have been borne by HSBC Holdings plc and are therefore not charged in arriving at profit before tax. Audit fees are disclosed in the financial statements of HSBC Holdings plc. The amount incurred in respect of the audit of these financial statements was $24k (2021: $24k).

There were no other audit procedures, tax and non-audit services provided where fees were incurred during the year (2021: nil).

6 Tax expense

Tax expense/(credit)

	2022	2021
	$'000	$'000
Current tax		
UK Corporation tax		
- For this year	**66**	49
- Adjustments in respect of prior years	**(48)**	10
Overseas tax		
- For this year	**108**	296
- For prior year	**—**	(10)
Total current tax	**126**	345
Deferred tax		
- For this year	**—**	(1,781)
Total deferred tax	**—**	(1,781)
Year ended 31 Dec	**126**	(1,436)

The UK corporation tax rate applying to the Company was 19.00% (2021: 19.00%).

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly.

A potential deferred tax asset of $234k (2021: $234k) in relation to capital losses has not been provided.

Tax reconciliation

	2022		2021	
	$'000	(%)	$'000	(%)
Profit before tax	**1,433**		281,613	
Tax at 19.00% (2021: 19.00%)	**272**	**19.00**	53,506	19.00
Adjustment in respect of prior years	**(48)**	**(3.35)**	—	—
Effects of overseas tax rates	**108**	**7.54**	296	0.10
Non-taxable income and gains	**(206)**	**(14.38)**	(53,211)	(18.90)
Other	**—**	**—**	(2,027)	(0.72)
Year ended 31 Dec	**126**	**8.79**	(1,436)	(0.52)

7 Deferred tax liabilities

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

	2022	2021
	$'000	$'000
At 01 Jan 2022	**—**	(1,781)
Income statement credit	**—**	1,781
At 31 Dec 2022	**—**	—

8 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.

	FVTPL	Amortised cost	Total
At 31 Dec 2022	**$'000**	**$'000**	**$'000**
Assets			
Cash and cash equivalents	**—**	**22,821**	**22,821**
Total financial assets	**—**	**22,821**	**22,821**
Total non-financial assets			**1,483,539**
Total assets			**1,506,360**
Liabilities			
Total financial liabilities	**—**	**—**	**—**
Total non-financial liabilities			**66**
Total liabilities			**66**
At 31 Dec 2021	$'000	$'000	$'000
Assets			
Cash and cash equivalents	—	21,669	21,669
Total financial assets	—	21,669	21,669
Total non-financial assets			1,053,539
Total assets			1,075,208
Liabilities			
Accruals, deferred income and other liabilities	—	124	124
Total financial liabilities	—	124	124
Total non-financial liabilities			97
Total liabilities			221

9 Investments in subsidiaries

	2022 $'000	2021 $'000
At 01 Jan	**1,053,539**	9,059,938
Additions	**430,000**	–
Disposals	**–**	(8,006,399)
At 31 Dec	**1,483,539**	1,053,539
Accumulated impairment		
At 01 Jan	**–**	(6,669,508)
Reversal on disposal	**–**	6,669,508
At 31 Dec	**–**	–
Net book/carrying value at 01 Jan	**1,053,539**	2,390,430
Net book/carrying value at 31 Dec	**1,483,539**	1,053,539

Movement of investments

The Company has made an additional investment of $430m in HSBC Holdings B.V. to fund the acquisition of L&T Investment Management Limited. The funding was provided by the Company's parent HSBC Holdings plc in the form of gift. This transaction increased the cost of investments in subsidiaries by $430m with a corresponding increase to capital contribution reserve.

The principal subsidiary undertakings of the Company as at 31 December 2022 are set out below.

	Country of incorporation	Interest in equity capital (%)	Share class
HSBC Holdings B.V.	**The Netherlands**	**100**	**Ordinary shares**
HSBC Holdings B.V.	**The Netherlands**	**100**	**Preference shares**
HSBC Asia Holdings B.V.	**The Netherlands**	**100**	**Ordinary shares**
HSBC Asia Holdings B.V.	**The Netherlands**	**100**	**Preference shares**
HSBC Electronic Data Processing India Private Limited[1]	**India**	**2.72**	**Ordinary shares**

[1] *Remaining interest (97.28% is owned by HSBC Holdings B.V.)*

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set out in Note 18.

Impairment testing of investment in subsidiaries

Impairment of investments

At each reporting period end, the Company reviews investments in subsidiaries for indicators of impairment which includes comparison of the carrying value of the investment to the adjusted net asset value of the subsidiaries. Impairment testing is performed if there is any indicator of impairment or to test reversal of an existing impairment.

An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment. The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use (VIU), in accordance with the requirements of IAS 36. The VIU calculation uses discounted cash flow projections based on management's best estimates of future earnings. The cash flows represent the free cash flows based on the subsidiary's binding capital requirements.

As at 31 December 2022, there were no indicators of impairment, consequently there was no impairment recognised (2021: nil).

10 Accruals, deferred income and other liabilities

	2022 $'000	2021 $'000
Amounts owed to other Group undertakings[1]	**–**	124
At 31 Dec	**–**	124

1 *Amounts due to other Group undertakings are non-interest bearing amounts and repayable on demand. The fair value of the amounts due to other group undertakings is not significantly different to the carrying value in the balance sheet as they are short term in nature.*

11 Maturity analysis of assets and liabilities

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

	On demand $'000	Due within 3 months $'000	Due between 3 - 12 months $'000	Due between 1 - 5 years $'000	Due after 5 years $'000	Undated $'000	Total $'000
Assets							
Cash and cash equivalents	**22,821**	**–**	**–**	**–**	**–**	**–**	**22,821**
Non-financial assets	**–**	**–**	**–**	**–**	**–**	**1,483,539**	**1,483,539**
At 31 Dec 2022	**22,821**	**–**	**–**	**–**	**–**	**1,483,539**	**1,506,360**
Liabilities and Equity							
Non-financial liabilities	**–**	**–**	**–**	**–**	**–**	**66**	**66**
Equity	**–**	**–**	**–**	**–**	**–**	**1,506,294**	**1,506,294**
At 31 Dec 2022	**–**	**–**	**–**	**–**	**–**	**1,506,360**	**1,506,360**

	On demand	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Due after 5 years	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash and cash equivalents	21,669	—	—	—	—	—	21,669
Non-financial assets	—	—	—	—	—	1,053,539	1,053,539
At 31 Dec 2021	21,669	—	—	—	—	1,053,539	1,075,208
Liabilities and Equity							
Accruals, deferred income and other liabilities	—	124	—	—	—	—	124
Non-financial liabilities	—	—	97	—	—	—	97
Equity	—	—	—	—	—	1,074,987	1,074,987
At 31 Dec 2021	—	124	97	—	—	1,074,987	1,075,208

12 Called up share capital

			2022	2021
	Nominal value per share £	Number of Issued and fully paid shares	**Issued share capital**	Issued share capital
			$'000	$'000
Class of shares:				
Ordinary shares	1	19	—	—
Balance as at 31 Dec		19	—	—

Called up share capital is $34 (2021: $34) but has been rounded down to nil in the disclosure above, which displays all balances in $000s.

13 Contingent liabilities, contractual commitments and guarantees

There were no contractual commitments or other contingent liabilities as at 31 December 2022 (2021: nil).

14 Management of financial risk

Systems and procedures are in place in the HSBC Group to identify, control and report on the major risks associated with financial instruments which include credit, liquidity and market risk. A Group Risk Profile Report and Key Management Information (KMI), including dedicated metrics covering each of credit, liquidity and market risk, alongside all other risk types relevant to HSBC, is presented at every regular Group Risk Management Meeting (GRMM), which are held at least six times per year and are chaired by the Group Chief Risk and Compliance Officer. Exposure to and management of treasury risk associated with financial instruments is also monitored through the HSBC Holdings Asset and Liability Committee (HALCO).

There were no changes in the Company's approach to risk management during the year.

Credit risk management

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

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

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

The Company's exposure to credit risk in relation to cash and cash equivalents and loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value relates to group undertakings that are wholly-owned subsidiaries of HSBC Holdings plc. Such counterparties have no history of default and have been able to meet their liabilities as they fall due. On this basis the Company considers the amounts due to be fully recoverable. Credit risk arising from default on other loans is not expected to have a material impact on the Company's net assets.

Maximum exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet plus contractual commitments disclosed in Note 13.

	2022	
	Maximum exposure	**Net**
	$'000	**$'000**
Cash and cash equivalents	**22,821**	**22,821**
At 31 Dec	**22,821**	**22,821**
Cash and cash equivalents	21,669	21,669
At 31 Dec	21,669	21,669

Liquidity risk management

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

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings. The Company also has a line of credit with HSBC Bank plc which can be used for liquidity purposes.

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

	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Accruals, deferred income and other liabilities	—	—	—	—	—	—
At 31 Dec 2022	—	—	—	—	—	—
Accruals, deferred income and other liabilities	—	124	—	—	—	124
At 31 Dec 2021	—	124	—	—	—	124

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce income values. Exposure to these risks arises from short-term cash balances and funding positions with other group undertakings. The objective of the Company risk management strategy is to reduce exposure to these risks and minimise volatility in economic income, cash flows and distributable reserves. The principal tool for managing this is sensitivity analysis of changes in profit before tax to future changes in the exchange rates or interest rate.

Foreign exchange risk

The Company has no significant exposure to foreign currency risk on assets and liabilities that are denominated in a currency other than US dollar.

Interest rate risk

The Company held net assets of $22.8m (2021: $21.7m) that are sensitive to interest rate movements. If all other variables are held constant the effect of a 100 basis points increase/(decrease) in interest rates on these net assets would be an increase/(decrease) of profit before tax of $0.2m (2021: $0.2m).

15 Related party transactions

Transaction with other related parties

Balances with related parties

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

	2022		2021	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	$'000	$'000	$'000	$'000
Assets				
Cash and cash equivalents[1]	22,821	22,821	21,669	21,669
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss[1,2]	—	—	260,671	—
Prepayments, accrued income and other assets[1,2]	—	—	1,094	—
Liabilities				
Accruals, deferred income and other liabilities[3]	124	—	964	124
Loans from other group undertakings[3]	—	—	250,000	—

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

	2022	2021
	$'000	$'000
Income statement		
Interest income[1,2]	347	2,329
Interest expense[3]	—	(2,054)
Dividend income[2]	1,087	280,057

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

The above outstanding balances arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

16 Parent undertakings

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

HSBC Holdings plc is incorporated in England and Wales.

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

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

17 Events after the balance sheet date

In March 2023, all classes of preference shares held by the Company in its subsidiaries HSBC Holdings B.V. (HHBV) and HSBC Asia Holdings B.V. (HAHB) were converted into ordinary shares as below:

In HHBV, 9,227,616 preference shares (€453.78 nominal value per share) were converted to 9,227,616 ordinary shares (€453.78 nominal value per share) and in HAHB, 22,541,041 preference shares (€1,000 nominal value per share) were converted to 450,820,820 ordinary shares (€50 nominal value per share).

In April 2023, the Company received interim dividend from its subsidiaries HHBV ($452.6m) and HAHB ($266.7m) and in turn paid an interim dividend of $722.8m to HSBC Holdings plc.

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

18 HSBC Finance (Netherlands)'s subsidiaries

In accordance with Section 409 of the Companies Act 2006 a list of the Company's subsidiaries, the country of incorporation and the effective percentage of equity owned at 18 HSBC Finance (Netherlands)'s subsidiaries

Subsidiaries	Interest (%)	Footnotes
Alawwal Investment Company	100.00 %	1, 14
Banco HSBC S.A.	100.00 %	1, 10
HSBC Asia Holdings B.V.	100.00 %	1, 2, 3
HSBC Asset Management (India) Private Limited	99.99 %	1, 2, 9
HSBC Bank Egypt S.A.E.	94.54 %	1, 12
HSBC Electronic Data Service Delivery (Egypt) S.A.E.	100.00 %	1, 15
HSBC Holdings B.V.	100.00 %	1, 2, 3
HSBC IM Penison Trust Limited	100.00 %	1, 3
HSBC InvestDirect (India) Private Limited	54.72 %	1, 9
HSBC InvestDirect Financial Services (India) Limited	99.99 %	1, 9
HSBC InvestDirect Sales & Marketing (India) Limited	98.99 %	1, 8
HSBC InvestDirect Securities (India) Private Limited	99.99 %	1, 9
HSBC Investment Bank Holdings B.V.	100.00 %	1, 3
HSBC Professional Services (India) Private Limited	97.93 %	1, 8
HSBC Property (UK) Limited	100.00 %	1, 3

Subsidiaries	Interest (%)	Footnotes
HSBC Saudi Arabia, Closed Joint Stock Company	51.00 %	1, 7
HSBC Securities (Egypt) S.A.E.	98.00 %	1, 12
HSBC Securities and Capital Markets (India) Private Limited	99.99 %	1, 2, 8
HSBC Software Development (India) Private Limited	99.99 %	1, 6
HSBC Software Development (Malaysia) Sdn Bhd	100.00 %	1, 5
L&T Investment Management Limited	100.00 %	1, 9
HSBC Brasil Holding S.A.	100.00 %	1, 10
HSBC Capital Funding (Dollar 1) L.P.	100.00 %	1, 16
HSBC Electronic Data Processing India Private Limited	100.00 %	1, 11
HSBC Services Japan Limited	100.00 %	1, 4
Associates		
The Saudi British Bank (Associate)	31.00 %	1,13

Reference	Description of Shares
1,	Ordinary Shares
2	Preference Shares

Reference	Registered Office
3	8 Canada Square, London, United Kingdom, E14 5HQ
4	Mareva House, 4 George Street, Nassau, Bahamas
5	Suite 1005, 10th Floor, Wisma Hamzah Kwong, Hing No. 1, Leboh Ampang, Kuala Lumpur, Malaysia, 50100
6	Business Bay, Wing 2, Tower B, Survey No 103, Hissa No. 2, Airport Road, Yerwada, Pune, India, 411006
7	HSBC Building 7267 Olaya - Al Murrooj, Riyadh, Saudi Arabia, 12283 - 2255
8	52/60 M G Road Fort, Mumbai, India, 400001
9	9-11 Floors, NESCO IT Park Building, No.3 Western Express Highway, Goregaon (East), Mumbai, India, 400063
10	1909 Avenida Presidente Juscelino Kubitschek, 19° andar, Torre Norte, São Paulo Corporate Towers, São Paulo, Brazil, 04551-903
11	HSBC House Plot No.8 Survey No.64 (Part), Hightec City Layout Madhapur, Hyderabad, India, 500081
12	306 Corniche El Nil, Maadi, Egypt, 11728
13	Al Amir Abdulaziz Ibn Mossaad Ibn Jalawi Street, Riyadh, Saudi Arabia
14	9004 Al Ulaya - Al Olaya Dis. Unit No.1, Riyadh, Saudi Arabia, 12214-2652
15	Smart Village 28th Km Cairo - Alexandria Deser Road Building, Cairo, Egypt
16	HSBC House Esplanade, St. Helier, Jersey, JE4 8UB