HSBC Trust Company (UK) Limited

Registration No: 106294

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

HSBC

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

Contents

Strategic Report

Principal activities

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

The Company 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 Company's principal activity is to provide wealth management services and products to customers of HSBC Holdings plc together with its subsidiaries ('HSBC Group') in the UK including trusteeships. The Company has no direct employees, with all related services provided by the immediate parent undertaking HSBC UK Bank plc ('HSBC UK').

Any reference to employees in this document is referring to employees of the parent entity.

The Company is limited by shares.

Review of the Company's business

During 2022, the Company continued to deliver on strategic decisions as it sought to restructure, simplify activities and de-risk the company. One of the impacts of this was lower income than in the prior year. The repositioning of the company over the past year has seen the assets under management and associated revenues decline following the planned migration of Corporate Individual Savings Accounts to the parent.

Performance

The Company's results for the year under review are as detailed in the income statement shown on page 10 of these financial statements.
The performance of the company has recorded a loss of £60,000 this year (2021: Loss of £377). The total asset value of the company as at 31 December 2022 amounts to £17,651,000 (2021: £26,456,000).

Section 172 statement

Stakeholder views and Decision-making

In overseeing the business and exercising its duty to promote the long-term success of the company for the benefit of its stakeholders as a whole, the Board takes account of various factors, including: the views and interests of relevant stakeholder groups, the likely consequences and potential impact of a decision in the long term, and the need to act fairly between the company's stakeholders.

To assist the Directors in complying with their statutory duties, understanding the company's stakeholders and taking informed decisions, they are provided with comprehensive induction programmes and an ongoing training programme. The Directors frequently engage, individually and collectively, with management and are provided with relevant, timely and accurate information both at and between Board meetings. This is supplemented by direct engagement with key stakeholders, internal and external subject matter experts and independent advisers, as appropriate.

The Board recognises the benefits of open and constructive dialogue with the company's stakeholders, whether directly by Directors or indirectly through management engagement. It enables the Board to develop an understanding of the different needs and expectations to be taken into account when setting the company's strategy and operating the business in a sustainable way. The extent to which each stakeholder group is engaged with and contemplated depends on the matter or issue under consideration. Often, the Board is required to balance conflicting needs and expectations between respective stakeholder groups in order to reach a decision that it considers to be in the long term interests of the company and its stakeholders overall. The outcome may, therefore, not be favourable to all stakeholders, all of the time.

Stakeholder Engagement

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

Customers

Customers are at the core of the company's business model and are a primary stakeholder: without customers there would be no company and they are at the heart of all discussions and considerations by the Board. The Board strives to ensure it has a broad understanding of its customers and their needs, particularly with regard to simplifying product delivery. Throughout 2022 HTCU has been working towards meeting new Consumer Duty regulation requirements, ensuring we deliver good customer outcomes and act consistently to support customers.

Shareholders

The company is a wholly owned subsidiary in the HSBC Group and, as such, the Board took into account the impact and implications of its decisions with regard to its direct and ultimate shareholders, HSBC UK Bank plc and HSBC Holdings plc. A strong relationship is maintained with HSBC UK through cross directorships of the Chairman of the Board, who is invited to update the HSBC UK Board on the activity of the company. Matters to be escalated to HBSC UK remains a standing agenda item to ensure that all key issues are reported to our sole shareholder in a timely manner.

As a wholly owned subsidiary, we also benefit from certain engagement practices which take place at a HSBC Group level which allows us to have more efficient and effective engagement practices. For details on some of the engagement that takes place with stakeholders at a HSBC Group level, please see HSBC Holdings plc 2022 Annual Report and Accounts and HSBC Holdings plc Environmental, Social and Governance Update.

Consideration of stakeholders in principal decisions and discussions

The majority of matters considered and decisions made by the Board are deemed to be routine in nature and are taken on a cyclical basis, such as approving the company's strategy, risk appetite and its annual capital and operating plans. Set out below are some examples of principal decisions and discussions that illustrate how the Directors have had regard to their stakeholders:

De-risk and Simplify

Following the successful legal entity migration of its Corporate Individual Savings Accounts book to HSBC UK in Q4 2022, the company continues to execute against the Board's strategy to simplify and de-risk the business by requesting Executive Management to re-evaluate various options for the company's remaining core businesses. During deliberations, the Board was mindful throughout of the potential impact of the various options presented on customers and employees.

Climate Change

Climate risks have the potential to cause both financial and non-financial impacts for the Company. Financial impacts could materialise from transactional losses or Business decisions to achieve overall climate ambitions of HSBC Group. Non-financial impacts could materialise from the impact of significant changes in weather on the Company's assets or operations.

The impact of climate risk on the balance sheet has been assessed and it is considered that there is no material impact on the financial statements for the year ended 31 December 2022. The impact on a number of areas of the balance sheet have been considered including property, plant and equipment, impairment and deferred tax as well as going concern of the Company.

Key performance indicators

The Directors use 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 Company is exposed.

Financial KPIs

	2022	2021
Loss for year (£'000)	(60)	—
Total equity at year end (£'000)	10,016	15,076

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Company 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 18 of the financial statements.

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

Operational risk is relevant to every aspect of the company'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 company'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 company's risk appetite, as proposed by the Executive Management Committee.

Regulators in the UK 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 takes 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. The company maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

Like other public and private organisations, the company continues to be a potential target of cyber-attacks, which in some cases disrupt services including the availability of the company's external facing websites, compromise organisations and customer information or expose security weaknesses. Management of cyber risks is coming under increased regulatory scrutiny.

The security of the company's information and technology infrastructure is crucial for maintaining the company's banking application process and protecting the company's customers and the HSBC brand

J. Hewitson

.On behalf of the Board
James E Hewitson
Director

29 March 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	Resigned
J Coyle	1 March 2016	
P M Spencer	11 April 2016	
J E Hewitson	1 January 2020	

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled 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 but have not been utilised by the Directors. All Directors have the benefit of Directors' and officers' liability insurance.

Significant events since the end of the financial year

In its assessment of events after the balance sheet date, the Company has considered and concluded that no material events have occurred resulting in adjustments to the financial statements.

Future developments

The Company continues to work closely with its parent undertaking, HSBC UK Bank plc, to implement the optimum strategic solutions for the provision of Wealth Management services to HSBC Customers in the UK. HTCU will not issue new products or take on new business in the foreseeable future, but current responsibilities will be maintained.

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 the principal risks and uncertainties and the impact of climate risk as set out in the strategic report, together with future projections of profitability, cash flows and capital resources.

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, 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 18 of the Notes on the financial statements.

Financial risk has heightened in 2022 as the UK economy faced a number of challenges, including rising inflation, increased interest rates, a cost of living crisis and a period of significant market volatility that followed changes to the policies announced by the UK Government. We have actively managed the risks resulting from these uncertainties and its impacts on our customers and operations during 2022.

Capital management

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.

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. Separate Pillar 3 disclosures are not required for the company as the company is included in the consolidated Pillar 3 disclosures of HSBC UK Bank plc. These Pillar 3 Disclosures at 31 December 2022 are published on HSBC Group's website, www.hsbc.com, under 'Investors'.

The PRA is the supervisor of the company. The PRA sets capital requirements and receives information on the capital adequacy of the company. The company complied with the PRA's capital adequacy requirements throughout 2021.

Our policy and practice in capital measurement and allocation for the company is underpinned by the Capital Requirements Regulation and Directive, as implemented ('CRR II') rules and any national discretions applied by the PRA.

The Basel III framework is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III introduced a number of capital buffers, including the Capital Conservation Buffer, Countercyclical Capital Buffer and other systemic risk buffers. CRR II legislation implemented Basel III in the EU, and the 'PRA Rulebook' for CRR Firms transposed the various national discretions under the CRR II legislation into UK requirements.

Regulatory capital

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

Calculation of actual capital

	2022 £'000	2021 £'000
Tier 1 capital		
Shareholders' equity	**10,016**	15,076
Common equity tier 1 capital	**10,016**	15,076
Tier 1 capital	**10,016**	15,076
Total regulatory capital	**10,016**	15,076
Risk-weighted assets (Unaudited)		
Credit and counterparty risk	**662**	1,197
Operational risk	**6,805**	17,260
Total	**7,467**	18,457
Capital ratios (%)		
Common equity tier 1 ratio	**134.14**	81.68
Tier 1 ratio	**134.14**	81.68
Total capital ratio	**134.14**	81.68

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

Independent auditors

PricewaterhouseCoopers LLP ('PwC') is the external auditor to the Entity. Following a tender process for the audit of HSBC Holdings plc and its subsidiaries that took place in 2022, it was recommended that PwC be reappointed as auditors for HSBC Group entities effective for periods ending on or after 1 January 2025. A resolution proposing the reappointment of PricewaterhouseCoopers LLP as auditor of the bank and giving authority to the HSBC Holdings Audit Committee to determine its remuneration will be submitted to the forthcoming Annual General Meeting ('AGM').

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. In preparing the financial statements, the directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

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;
- state whether applicable UK-adopted international accounting standards and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent;
- 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, 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 theCompany's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

Approved by the Board on 29 March 2023 and signed on its behalf by:

J. Hewitson

J E Hewitson
Director

Registered office
8 Canada Square
London E14 5HQ
United Kingdom

Independent auditors' report to the members of HSBC Trust Company (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Trust Company (UK) Limited'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 loss 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: balance sheet as at 31 December 2022; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board of Directors..

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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 4 to the financial statement, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to express an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the entity operates.

Key audit matters

- Revenue recognition -Fees earned on trust activities

Materiality

- Overall materiality: £176,650 (2021: £263,810) based on 1% of total assets.
- Performance materiality: £132,375 (2021: £197,858).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matters	How our audit addressed the key audit matter
Revenue recognition-fees earned on trust activities Refer to Notes on the financial statements, Note 1.2 (a) and Note 2 Operating (Loss). Fees are generated from various revenue streams, much of which is automatically calculated by a system and requires no management intervention or judgment. The processing of trust management fee income does however involve different contractual terms and manual intervention and is therefore considered to be more complex in nature with an associated higher risk of misstatement.	We have performed substantive testing procedures to achieve an appropriate level of audit evidence in relation to management fee income. Our procedures included the following testing: • Tested a sample of customer contracts agreeing relevant details to the information maintained on the system. • On a sample basis we reperformed the calculation of fee income based on the terms and conditions per the customer contract and compared this to the revenue that had been recognised. • For a sample of assets held within the trust arrangements we performed testing over the market value of the assets held on which the associated fee income is based. • We tested a sample of manual journals, focusing on those considered to have higher risk characteristics, seeking appropriate evidence to support the journal postings.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. We performed a risk assessment, giving consideration to relevant internal and external factors, including climate change, economic risks, relevant accounting and regulatory developments, HSBC's strategy and any changes taking place within the group. We also considered our knowledge and experience obtained in prior year audits. In particular, we looked at where the directors made subjective judgements, for example in respect of accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

The impact of climate risk on our audit

As part of our audit, we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. We evaluated and challenged management's assessment of the impact of climate risk, including their conclusion that there is no material impact on the financial statements. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£176,503 (2021: £263,810).
How we determined it	1% of total assets
Rationale for benchmark applied	We believe that total assets is a key measure used by the shareholders in assessing performance of the entity and is a generally accepted auditing benchmark. Recent product migrations have impacted the size and complexity of the entity's business and have reduced the company's revenues as well as profitability and as such, total assets was determined to be the most relevant benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £132,377 (2021: £197,858) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £8,825 (2021: £13,191) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's assessment of financial resource plan and current and future projections of profitability, cash flows and capital requirements and capital resources; and
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation 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 Financial Conduct Authority's ("FCA") regulations, the Prudential Regulation Authority's ("PRA") regulations, Anti-Bribery and Corruption legislation, Anti- Money Laundering legislation and the 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 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 and judgments. Audit procedures performed by the engagement team included:

- challenging estimates and judgements made by management in their accounting estimates;
- identifying and testing journal entries, including those posted with certain descriptions, posted and approved by the same individual, backdated journals, posted by infrequent and unexpected users, posted to reverse revenue after year end and posted with unusual account combinations;
- reviewing minutes of meetings of those charged with governance; and
- audit procedures performed by the engagement team included a review of the financial statement disclosures to underlying supporting documentation, review of correspondence with regulators including the FCA and PRA, enquiries of management and review of internal audit reports in so far as they relate to the financial statements.

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not 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.

Appointment

Following the recommendation of the Board of Directors, we were appointed by the members on 31 March 2015 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2016 to 31 December 2022.

Hamish Anderson

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
1 April 2023

Financial statements

Income statement for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Interest income		36	6
Interest expense		(199)	–
Net interest income	2	(163)	6
Fee income		3,611	4,013
Net fee income	2	3,611	4,013
Net operating income		3,448	4,019
General and administrative expenses		(3,531)	(4,020)
Total operating expenses		(3,531)	(4,020)
Operating loss		(83)	(1)
Loss before tax		(83)	(1)
Tax credit	5	23	1
Loss for the year		(60)	–

Statement of comprehensive income for the year ended 31 December 2022

There has been no comprehensive income or expense other than the Loss for the year as shown above (2021: nil).

Balance sheet at 31 December 2022
Registration No: 106294

	Notes	2022 £'000	2021 £'000
Assets			
Cash and cash equivalents	9	**16,917**	25,042
Loans and advances to customers	10	**281**	297
Accrued income		**2**	36
Other assets	12	**422**	1,075
Current tax assets	5	**24**	1
Investments in subsidiaries	11	**5**	5
Total assets		**17,651**	26,456
Liabilities and equity			
Liabilities			
Customer accounts	13	**6,189**	6,364
Bank overdrafts with parent undertakings	9	**–**	2,661
Accruals, deferred income and other liabilities	14	**1,413**	2,213
Provisions	15	**33**	142
Total liabilities		**7,635**	11,380
Equity			
Called up share capital	17	**–**	–
Retained earnings		**10,016**	15,076
Total equity		**10,016**	15,076
Total liabilities and equity		**17,651**	26,456

The accompanying notes on pages 14 to 22 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 March 2023 and signed on its behalf by:

J. Hewitson

J E Hewitson
Director

Statement of cash flows for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Cash flows from operating activities			
Loss before tax from continuing operations		**(83)**	(1)
Adjustments for:			
Change in operating assets	7	**703**	72
Change in operating liabilities	7	**(1,084)**	(16,746)
Tax paid		**–**	137
Net cash used in operating activities		**(464)**	(16,538)
Dividends paid		**(5,000)**	–
Net cash used in financing activities		**(5,000)**	–
Net decrease in cash and cash equivalents		**(5,464)**	(16,538)
Cash and cash equivalents brought forward		**22,381**	38,919
Cash and cash equivalents carried forward	7	**16,917**	22,381

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

	Called up share capital	Share Premium	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 Jan 2022	–	–	**15,076**	**15,076**
Loss for the year	–	–	(60)	(60)
Total comprehensive expense for the year	–	–	(60)	(60)
Dividends to shareholders	–	–	(5,000)	(5,000)
At 31 Dec 2022	–	–	**10,016**	**10,016**
At 1 Jan 2021	–	–	15,076	15,076
Loss for the year	–	–	–	–
Total comprehensive expense for the year	–	–	–	–
Dividends to shareholders	–	–	–	–
At 31 Dec 2021	–	–	15,076	15,076

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

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 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 these financial statements.

Standards adopted during the year ended 31 December 2022

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 International Financial Reporting Standards ('IFRSs')

The International Accounting Standards Board ('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. The Company expects they will have an insignificant effect, when adopted, on the financial statements.

New IFRSs

FRS 17 'Insurance Contracts'

The IASB has published IFRS 17 'Insurance Contracts'. IFRS 17 has not yet been endorsed but is not expected to have a significant impact on the financial statements of the company.

(c) Presentation of information

Capital disclosures under IAS 1 'Presentation of Financial Statements' ('IAS 1') have been included in the Report of the Directors: Capital Management on page 3.

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

The financial statements have been prepared under the historical cost convention.

(d) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. There are no accounting policies or estimates that are deemed critical to the results and financial position, in terms of materiality of the items to which the policies applied, which involve a high degree of judgement and estimation.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the principal risks and uncertainties and the impact of climate risk as set out in the strategic report, together with 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.

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

Fee income is earned from a diverse range of services provided by the Company 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).

(b) Investments in subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. Where a Company is governed by voting rights, the Company 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 Company's investments in subsidiaries are stated at cost less impairment losses.

(c) Financial instruments measured at amortised cost

Financial assets

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, are measured at amortised cost. Such financial assets include most loans and advances to banks and customers.

Financial Liabilities

Customer Accounts, amounts owed to other group undertakings, represent financial liabilities. Financial liabilities are measured at amortised cost.

(d) Impairment of amortised cost financial assets

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

Write-off

Financial assets (and the related impairment allowances) 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.

(e) Offsetting of financial assets and financial liabilities

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.

(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 in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

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

(g) Provisions

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

(h) Discontinued Operations

There have been no discontinued operations in the year.

(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. Operating Loss

Operating loss is stated after the following items of income and expense:

	2022 £'000	2021 £'000
Fee income		
Fees earned on trust and other fiduciary activities where the company holds or invests assets on behalf of its customers	**2,461**	2,782
Revenue share received from HSBC UK Life	**877**	874
Other Fees	**273**	357
Fee expense		
Interest on financial instruments	**(199)**	—
General and administrative expenses		
Recharges from other group entities for services provided	**(2,789)**	(3,319)

Employee compensation and benefits

The Company has no employees (2021: nil). The charges for all staff related services for the current and prior year has been borne by other HSBC Group companies and recharged as noted above.

3. Directors' emoluments

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

	2022 £'000	2021 £'000
Salaries and other emoluments	64	71
Year ended 31 Dec	**64**	71

No Director exercised share options over HSBC Holdings plc ordinary shares during the year. (2021: No Director exercised share options over HSBC Holdings plc ordinary shares).

Retirement benefits are accruing to 2 Directors (2021: 2) under money purchase schemes in respect of Directors' qualifying services. Contributions of £600 (2021: £600) were made during the year to money purchase arrangements in respect of Directors' qualifying services.

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the company's ultimate parent company, 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.

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

	2022 £'000	2021 £'000
Salaries and other emoluments	35	39
Year ended 31 Dec	**35**	39

Pension contributions of £400 (2021: £400) were made by the company in respect of services by the highest paid Director during the year.

4. Auditors' remuneration

	2022 £'000	2021 £'000
Audit fees for HSBC Trust Company (UK) Limited's statutory audit		
- Fees relating to current year	56	46
Fees for other services provided to the company		
- Audit-related assurance services	271	248
Year ended 31 Dec	**327**	294

The audit related assurance services relates to client money audit work. No fees were payable to PricewaterhouseCoopers LLP for the following types of services: internal audit services and services related to litigation, recruitment and remuneration (2021: nil).

5. Tax

Tax Credit

	2022 £'000	2021 £'000
Current tax		
UK Corporation tax		
- For this year	(23)	(1)
Total current tax for year ended 31 Dec	**(23)**	(1)

The UK corporation tax rate applying to the company is 19% (2021: 19%). HSBC Trust Company (UK) Limited meets the definition of a banking company and is therefore also subject to the 8% banking surcharge.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. A decrease in the banking surcharge from 8% to 3% was substantively enacted on 22 February 2022 (also effective 1 April 2023).

The company's current tax credit/charge will therefore increase from 1 April 2023, in aggregate, from 27% to 28%.

Tax reconciliation

	2022 £'000	2022 (%)	2021 £'000	2021 (%)
(Loss)/Profit before tax				
- Continuing activities	(83)		(1)	
Loss before tax	(83)		(1)	
Tax at 19% (2021: 19%)	(16)	(19)	–	(19)
Banking surcharge	(7)	(8)	–	(8)
Year ended 31 Dec	**(23)**	**(27)**	(1)	(27)

The effective tax rate for 2022 of 27% (2021: 27%) reflects the UK rate of corporation tax for banking entities.

6. Dividends

	2022		2021	
	£ per share	£'000	£ per share	£'000
Dividends declared on ordinary shares				
Interim dividend in respect of the previous year	–	–	5,000,000	5,000

7. Net cash flow from operating assets and liabilities

	2022	2021
	£'000	£'000
Change in operating assets		
Change in accrued income	34	(36)
Change in loans and advances to customers	16	31
Change in other assets	653	77
	703	72
Change in operating liabilities		
Change in accruals, deferred income and other liabilities	(800)	(3,378)
Change in customer accounts	(175)	(13,120)
Change in provisions	(109)	(248)
	(1,084)	(16,746)
Cash and cash equivalents comprise		
Loans and advances to bank of one month or less	16,917	25,042
Bank overdrafts with parent undertakings of one month or less	–	(2,661)
Change in cash and cash equivalents	16,917	22,381

8. Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis at amortised cost.

9. Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and cash equivalents	16,917	25,042
Bank overdrafts with parent undertakings	–	(2,661)
At 31 Dec	16,917	22,381

10. Loans and advances to customers

	2022	2021
	£'000	£'000
Loans and advances to customers	281	297
At 31 Dec	281	297

Loans and advances to customers by industry sector

	2022		2021	
	Gross loans and advances to customers	Gross loan by industry as % of total gross loans	Gross loans and advances to customers	Gross loan by industry as % of total gross loans
	£'000	%	£'000	%
- Other personal	281	100.00	297	100.00
At 31 Dec	281	100.00	297	100.00

11. Investments in subsidiaries

	Country of incorporation	Interest in equity capital (%)	Share class	No.of shares	Investment (£)	
					2022	2021
Midland Nominees Limited [1]	United Kingdom	100	Ordinary £1.00	100	100	100
Turnsonic (Nominees) Limited [1]	United Kingdom	100	Ordinary £1.00	2	2	2
St. Cross Trustees Limited [1]	United Kingdom	100	Ordinary £1.00	5,000	5,000	5,000
HSBC Executor and Trustee (UK) Limited [1]	United Kingdom	100	Ordinary £1.00	100,000	–	–

[1] *Address: 8 Canada Square, London E14 5HQ, United Kingdom*

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set out above. The principal countries of operation are the same as the countries of incorporation.

No investments in subsidiaries were impaired in 2022 (2021: nil).

12. Other assets

	2022	2021
	£'000	£'000
Amounts due from fellow subsidiaries	217	228
Amounts due from fellow Group undertakings	–	137
Other assets	205	710
At 31 Dec	**422**	1.075

Amounts due from fellow subsidiaries are unsecured and repayable on demand.

13. Customer accounts

	2022	2021
	£'000	£'000
Retail customers		
Customer deposits	6,189	6,364
At 31 Dec	**6,189**	6,364

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

14. Accruals, deferred income and other financial liabilities

	2022	2021
	£'000	£'000
Accruals and deferred income	572	557
Amounts owed to other group companies	–	6
Amounts owed to parent undertaking	563	1,288
Other liabilities	278	362
At 31 Dec	**1,413**	2,213

Amounts due to other group undertakings are unsecured, interest free and have no fixed date of repayments.

15. Provisions

	Customer redress provision	
	2022	2021
	£'000	£'000
At 1 Jan	142	390
Additions	1	–
Amounts utilised	(110)	(234)
Unused amounts reversed	–	(14)
At 31 Dec	**33**	142

There is uncertainty associated with both the timing and quantum of the provisions which reflect the best estimate of the likely settlement amounts.

16. 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	16,917	—	—	—	—	—	16,917
Loans and advances to customers	—	—	—	—	—	281	281
Accrued income	—	2	—	—	—	—	2
Other assets	205	217	—	—	—	—	422
Current tax assets	—	—	24	—	—	—	24
Investments in subsidiaries	—	—	—	—	—	5	5
At 31 Dec 2022	**17,122**	**219**	**24**	**—**	**—**	**286**	**17,651**
Liabilities and Equity							
Customer accounts	6,189	—	—	—	—	—	6,189
Accruals, deferred income and other liabilities	192	825	391	—	—	5	1,413
Provisions	—	—	—	—	—	33	33
Equity	—	—	—	—	—	10,016	10,016
At 31 Dec 2022	**6,381**	**825**	**391**	**—**	**—**	**10,054**	**17,651**
Assets							
Cash and cash equivalents	25,042	—	—	—	—	—	25,042
Loans and advances to customers	—	—	—	—	—	297	297
Accrued income	—	36	—	—	—	—	36
Other assets	710	365	—	—	—	—	1,075
Current tax assets	—	—	1	—	—	—	1
Investments in subsidiaries	—	—	—	—	—	5	5
At 31 Dec 2021	25,752	401	1	—	—	302	26,456
Liabilities and Equity							
Customer accounts	6,364	—	—	—	—	—	6,364
Accruals, deferred income and other liabilities	230	1,620	358	—	—	5	2,213
Provisions	—	—	—	—	—	142	142
Bank overdrafts with parent undertakings	2,661	—	—	—	—	—	2,661
Equity	—	—	—	—	—	15,076	15,076
At 31 Dec 2021	9,255	1,620	358	—	—	15,223	26,456

17. Called up share capital and other equity instruments

	2022		2021	
	Number	£'000	Number	£'000
Issued, allotted and fully paid up				
Ordinary shares of £5 each	1	—	1	—
As at 1 Jan and 31 Dec	**1**	**—**	1	—

No restrictions relating to distributions of repayment of capital are attached to the Ordinary shares.

18. Management of financial risk

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

Any and all such events mentioned above could have a material adverse effect on our business, financial condition, results of operations, liquidity and capital position, as well as on our customers and suppliers.

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.

Within the overall framework of the HSBC Group policy, the Company 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 Company 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 Company'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.

I. Maximum exposure to credit risk

	2022		
	Maximum exposure	Offset	Net
	£'000	£'000	£'000
Cash and cash equivalents	16,917	—	16,917
Loans and advances to customers at amortised cost	281	—	281
Other assets	452	—	452
At 31 Dec	**17,650**	—	**17,650**

	2021		
	Maximum exposure	Offset	Exposure to credit risk (net)
	£'000	£'000	£'000
Cash and cash equivalents	25,042	—	25,042
Loans and advances to customers at amortised cost	297	—	297
Other assets	1,117	—	1,117
At 31 Dec	26,456	—	26,456

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 10). The Company uses a number of controls and measures to minimise undue concentration of exposure in the Company's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Due to the retail-based nature of its lending activities, the Company is not exposed to any significant concentration risk external to the parent entity 96% (2021: 96 %) of the credit risk exposure is to the parent undertaking, HSBC UK Bank plc.

III. Credit quality

The five 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+ to BBB-
Satisfactory	BB+ to B and unrated
Sub-standard	B- to C
Credit-impaired	Default

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

Quality classification definitions

'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default.

'Good' exposures demonstrate a good capacity to meet financial commitments, with low default risk.

'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.

'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.

'Credit-impaired' exposures have been assessed as impaired.

Distribution of financial instruments by credit quality

	Strong	Good	Total
	£'000	£'000	£'000
Cash and cash equivalents	16,917	—	16,917
Loans and advances to customers	—	281	281
At 31 Dec 2022	**16,917**	**281**	**17,198**

	Strong	Good	Total
	£'000	£'000	£'000
Cash and cash equivalents	25,042	—	25,042
Loans and advances to customers	—	297	297
At 31 Dec 2021	25,042	297	25,339

IV. Collateral and other credit enhancements

The Company follows guidelines as to the acceptability of specific classes of collateral or credit risk mitigation. While collateral is important in mitigating credit risk, it is the Company 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.

Liquidity risk management

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

The company is included in the HSBC UK Bank plc Liquidity Group ('Liquidity Group') which is managed as a single operating entity, in line with the application of the UK liquidity regulations as agreed with the PRA. Each member agrees to provide liquidity support when necessary.

Market risk management

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

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

Market Risk is managed and controlled through limits approved by the Risk Management Meeting ('RMM') of the HSBC Group Management Board for HSBC Holdings plc and the global businesses. These limits are allocated across business lines and approved by the HSBC Group's legal entities, including HSBC UK Bank plc.
An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

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 Company's income or the value of its portfolios.

The Company 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 Company 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 company's performance. Deposits received from customers are at variable rates of interest, generally linked to customer rates offered by HSBC UK Bank plc. The company places all funds with its parent.

19. Regulatory matters

The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcome of regulatory matters are 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 2022 (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 our regulatory matters as a class of contingent liabilities.

20. 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 Company. Only the directors are key management personnel during the year.

Compensation of Key Management Personnel

The following represents the compensation for Directors and other Key Management Personnel of the Company in exchange for services rendered to the Company and includes members of the Board of Directors.

	2022 £'000	2021 £'000
Short-term employee benefits	64	71
Post-employment benefits	1	1

(b) Transactions with other related parties

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

	2022 £'000	2021 £'000
Assets		
Cash and cash equivalent	16,917	25,042
Liabilities		
Bank overdrafts with parent undertakings	–	2,661
Other liabilities	556	1,288

	2022 £'000	2021 £'000
Income statement		
Interest income	2	1
General and administrative expenses	2,786	3,270

Transactions detailed below include amounts due to/from other group companies. (HSBC Life (UK) Limited), St Cross Trustees Limited & HSBC Executor Trustee Co (UK)Ltd.

	2022 £'000	2021 £'000
Assets		
Other assets	217	365
Liabilities		
Other liabilities	7	6

	2022 £'000	2021 £'000
Income statement		
Fee income	877	874
General and administrative expenses	3	47

The 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 favourable features.

21. 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 UK Bank plc is the parent undertaking of the smallest group to consolidate these financial statements. The immediate parent undertaking is HSBC UK Bank plc.
Copies of HSBC Holdings plc's and HSBC UK Bank plc consolidated financial statements can be obtained from;

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

HSBC UK Bank plc
1 Centenary Square
Birmingham B1 1HQ
United Kingdom
www.hsbc.com

22. Events after the balance sheet date

In its assessment of events after the balance sheet date, the company has considered and concluded that no material events have occurred resulting in adjustments to the financial statements.

23. Client segregated money

The company holds cash in respect of client investments in individual savings accounts, structured products and managed portfolios in segregated trust accounts with HSBC UK Bank plc and other external banks. As at 31 December 2022 the cash amounted to £21,122,000 (2021: £21,407,000). The cash is not shown as the company's assets or liabilities respectively as it is held on behalf of client.