# HSBC Asset Finance (UK) Limited

**Registration No: 229341**

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



HSBC

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

## Contents

# Strategic Report

## Principal activities

The principal activity of HSBC Asset Finance (UK) Limited (the 'Company') is to provide finance through loans to third parties and to other group undertakings. The Company also holds investments in its subsidiary companies. No change in the Company's activities is anticipated.

The Company is a private limited company incorporated in the United Kingdom and registered in England and Wales.

The Company is limited by shares.

## Review of the Company's business

During the year the Company continued the financial transactions written in previous years. No new business was written during the year nor the previous year.

In the prior year, assets amounting to £131.1m relating to loans and advances and finance lease receivables were transferred to another group undertaking, HSBC Equipment Finance (UK) Limited. Furthermore, from 1 July 2018, as a result of the requirement to meet ring-fencing regulations in accordance with the UK Financial Services (Banking Reform) Act 2013, the Company ceased to provide funding to other group undertakings held within the ring-fenced sector of the HSBC group. Consequently, this resulted in a significant reduction in the amounts due from/owed to other group undertakings during the prior year together with a reduction in loans and receivables. In the current year, this reduction in balances is reflected in lower levels of interest and operating income received and incurred in the income statement.

The business continues to provide funding to the remaining other group undertakings and this is funded by its parent undertaking mainly through borrowing.

The Company has no employees. Services required are provided by fellow HSBC Group companies. The Company's principal stakeholder is its parent company.

## Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. As part of the Company's deliberations and decision making process, the Board also takes into account the (i) likely consequences of any decision in the long term; (ii) the interests of the company's employees; (iii) the need to foster the company's business relationships with suppliers, customers and others; (iv) the impact of the company's operations on the community and the environment; and (v) the desirability of the company maintaining a reputation for high standards of business conduct.

The Board considers its stakeholders to be the people who work for us, utilise our services, own us, regulate us and live in the societies we serve. During 2019, the directors gave careful consideration to the factors set out above in discharging their duties under section 172. The Board recognises that building strong relationships with our stakeholders will help deliver the Company's strategy in line with its long-term values, and operate the business in a sustainable way.

The Board is committed to effective engagement with its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of the Company's engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decision-making. The Board acknowledges however, that not every decision it makes will necessarily result in a positive outcome for all stakeholders.

The Board will sometimes engage directly with certain stakeholders on specific issues, but the size and distribution of our stakeholders and of the HSBC Group means that stakeholder engagement often takes place at an operational level. In these instances, the Board is informed of stakeholder views through management reports and presentations.

The majority of decisions made by the Board during the year are deemed to be routine in nature and are taken on a cyclical basis. The following example of a principal decision demonstrates how the Board considered the interests of stakeholders in its decision making:

The HSBC Group's Legal Entity Reduction programme ('LER') aims to reduce the number of associates and subsidiaries within the Group. During 2019, the LER concluded that two of the company's 100% owned direct subsidiaries, Swan National Leasing (Commercials) Limited ('Swan National') and Assetfinance December (M) Limited ('December M') (together the 'Subsidiaries') matched the Group's criteria for a solvent-liquidation.

- In August 2019, the Board approved payment of a non-cash dividend by Swan National, and for it to be placed into a Member's Voluntary Liquidation under the United Kingdom's Insolvency Act 1986 ('IA 1986')
- In December 2019, the Board approved payment of a non-cash dividend by December M, and for it to be placed into a Member's Voluntary Liquidation under the IA 1986.

Approving the orderly wind-down of the Subsidiaries allowed the Board to support HSBC's stated strategic aim of simplifying the organisation by reducing complexities and administrative cost.

## Performance

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

The balance sheet shows total assets of £459.7m as at 31 December 2019 compared to £507.8m as at the previous year end.

## Key performance indicators

As the Company is managed as part of a global bank, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC Bank plc. Ongoing review of the performance of the Company is carried out by comparing actual performance against annually set budgets.

## Principal risks and uncertainties

The principal financial risks and uncertainties facing the Company are credit risk, market risk and liquidity risk. These risks, the exposure to such risks and management of risk are set out in Note 20 of the financial statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union ('EU') with the process of the UK leaving the EU commencing on 29 March 2017. The UK left the EU on 31 January 2020 and entered into a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU. At this stage the ultimate economic effect of the UK leaving the EU is uncertain and will depend upon the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime, this uncertainty is expected to result in market risk volatility in the short to medium term including sterling exchange rates and interest rates. As described in Note 20, foreign exchange and interest rate risks are managed by the Company in the ordinary course of business and so any increased volatility as a result of the UK leaving the EU is not expected to have a material effect on the results and net assets of the Company. Additionally, any general adverse consequences for credit risk at a UK or EU macro-economic level that may arise as a consequence of the UK leaving the EU is not expected to translate into a material increase in credit risk for the Company given the nature of the Company's transactions, its counterparties and available security.

In addition to the above, since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing global disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect their economies. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company and its customers, an assessment of the leasing arrangements and cash flows held by the Company has been performed by Management and it is considered that the COVID-19 outbreak is not expected to have a significant impact on the principal risks facing the Company.

On behalf of the Board

J Subramaniyan
Director

17 September 2020

Registered office
8 Canada Square
London E14 5HQ
United Kingdom

# Report of the Directors

## Directors

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

| Name | Resigned |
|---|---|
| G Owen-Conway | 6 December 2019 |
| J Subramaniyan | |
| S E Long | |
| C R J Irvin | |
| O Uwakwe | |

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

Interim dividends of £8m were paid on the ordinary share capital during the year (2018: £73.6m). Details of dividend payments made during the year are included in Note 9 and payments are reflected in the financial statements in the period they are paid.

The Directors intend to declare and pay an interim dividend of £8m in respect of retained earnings from the year ended 31 December 2019, payable in the year ended 31 December 2020.

## Significant events since the end of the financial year

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing global disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect their economies. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company and its customers, an assessment of the leasing arrangements and cash flows held by the Company has been performed by Management and it is considered that the COVID-19 outbreak is not expected to have a significant impact on the principal risks facing the Company.

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

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

## Future developments

No change in the Company's activities is expected.

## Going concern basis

The Company had net current liabilities of £4,611k as at 31 December 2019. HSBC Bank plc, the parent undertaking, has committed to ensuring the provision of sufficient funds for a period of not less than twelve months from the date of authorisation of these financial statements, to enable the Company to meet its liabilities as they fall due. Furthermore, based on the lending arrangements held by the Company as at the year end, positive operating cash flows are expected to be generated for more than one year from the date of authorisation of these financial statements. As a result of this, together with the considerations in respect of the impact of the COVID-19 outbreak referred to above, the Directors have prepared the financial statements on a going concern basis.

## 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 20 of the Notes on the financial statements.

## Capital management

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

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

## Independent auditors

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

# Statement of Directors' Responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 the case of each Director in office at the date the Directors' Report is approved:

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

On behalf of the Board

J Subramaniyan
Director

17 September 2020

Registered office
8 Canada Square
London E14 5HQ
United Kingdom

# Independent auditors' report to the member of HSBC Asset Finance (UK) Limited

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the *Annual Report and Financial Statements* (the "*Annual Report*"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes on the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards of Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's 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 of our opinion.

#### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

### Reporting on other information

The other information comprises all of the information in the *Annual Report* other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

### Use of this report

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

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Gethin Evans

Gethin Evans (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes

17 September 2020

# Financial statements

## Income statement for the year ended 31 December 2019

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Interest income | 2 | 3,311 | 26,150 |
| Interest expense | | (2,443) | (23,493) |
| **Net interest income** | | **868** | 2,857 |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | | 557 | 532 |
| Dividend income | | 4,646 | 3,962 |
| Other operating (expense)/income | | (12) | 43,676 |
| **Net operating income before loan impairment charges and other credit risk provision** | | **6,059** | 50,827 |
| Loan impairment credit and other credit risk provisions | | 34 | 302 |
| **Net operating income** | | **6,093** | 51,129 |
| General and administrative expenses | 3 | (79) | (45,053) |
| Impairment reversal on investments in subsidiaries | | 949 | — |
| **Total operating expenses** | | **870** | (45,053) |
| **Operating profit** | | **6,963** | 6,076 |
| **Profit before tax** | | **6,963** | 6,076 |
| Tax (expense)/credit | 7 | (291) | 54 |
| **Profit for the year** | | **6,672** | 6,130 |

## Statement of comprehensive income for the year ended 31 December 2019

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (2018: nil)

# Balance sheet at 31 December 2019
# Registration No: 229341

| | Notes | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 1,990 | 2,746 |
| Derivatives | | 2,365 | 2,410 |
| Trade and other receivables | 13 | 423,849 | 467,107 |
| Current tax assets | | 2,910 | 1,703 |
| Investments in subsidiaries | 14 | 27,917 | 32,991 |
| Deferred tax assets | 8 | 709 | 880 |
| **Total assets** | | 459,740 | 507,837 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Trade and other payables | 16 | 29,638 | 28,799 |
| Loans from other group undertakings | 17 | 358,755 | 405,973 |
| Derivatives | | 7,659 | 8,049 |
| **Total liabilities** | | 396,052 | 442,821 |
| **Equity** | | | |
| Called up share capital | 18 | 23,000 | 23,000 |
| Retained earnings | | 40,688 | 42,016 |
| **Total equity** | | 63,688 | 65,016 |
| **Total liabilities and equity** | | 459,740 | 507,837 |

The accompanying notes on pages 11 to 24 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 September 2020 and signed on its behalf by:

J Subramaniyan
Director

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

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before tax** | | 6,963 | 6,076 |
| **Adjustments for:** | | | |
| Non-cash items included in profit before tax | | (34) | (302) |
| Change in operating assets | | 54,028 | 246,066 |
| Change in operating liabilities | | (301) | (4,323) |
| Dividend received | | (4,646) | (3,962) |
| Tax paid | | (1,326) | (1,833) |
| **Net cash generated from operating activities** | | 54,684 | 241,722 |
| **Cash flows from investing activities** | | | |
| Net cash inflow from disposal of subsidiaries [1] | | 5,073 | — |
| Dividend received | | 4,646 | 3,962 |
| **Net cash generated from investing activities** | | 9,719 | 3,962 |
| **Cash flows from financing activities** | | | |
| Decrease in amounts owed to other group undertakings | | (46,468) | (7,995,530) |
| (Increase)/decrease in amounts due from other group undertakings | | (10,691) | 7,729,701 |
| Dividends paid | 9 | (8,000) | (73,613) |
| **Net cash used in financing activities** | | (65,159) | (339,442) |
| Net decrease in cash and cash equivalents | | (756) | (93,758) |
| Cash and cash equivalents brought forward | | 2,746 | 96,504 |
| **Cash and cash equivalents carried forward** | | 1,990 | 2,746 |

1. *Transactions related to the disposal of subsidiaries have been adjusted through inter-company accounts*

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

| | Called up share capital | Retained earnings | Other reserves<br>Financial assets at FVOCI reserve | Total equity |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **At 1 Jan 2019** | **23,000** | **42,016** | **–** | **65,016** |
| Profit for the year | – | 6,672 | – | 6,672 |
| **Total comprehensive income for the year** | – | 6,672 | – | 6,672 |
| Dividends to shareholders | – | (8,000) | – | (8,000) |
| **At 31 Dec 2019** | **23,000** | **40,688** | **–** | **63,688** |

| | Called up share capital | Retained earnings | Other reserves<br>Available for sale fair value reserve | Total equity |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| At 1 Jan 2018 | 23,000 | 110,314 | 317 | 133,631 |
| Impact on transition to IFRS 9 | | (815) | (317) | (1,132) |
| At 1 Jan | 23,000 | 109,499 | – | 132,499 |
| Profit for the year | – | 6,130 | – | 6,130 |
| Total comprehensive income for the year | – | 6,130 | – | 6,130 |
| Dividends to shareholders | – | (73,613) | – | (73,613) |
| At 31 Dec 2018 | 23,000 | 42,016 | – | 65,016 |

# Notes on the financial statements

## 1 Basis of preparation and significant accounting policies

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

### 1.1 Basis of preparation

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

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

At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these financial statements, and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2019

*IFRS 16 'Leases'*

The Company adopted IFRS 16 'Leases' with effect from 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost.

Lessor accounting remains substantially the same as under IAS 17. The implementation has had no significant effect on the financial statements of the Company.

During 2019, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Company.

**(b) Future accounting developments**

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2020, some of which have been endorsed for use in the EU. The Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

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

**(c) Foreign currencies**

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

**(d) Presentation of information**

The functional currency of the Company is sterling, which is also the presentational currency of the financial statements of the Company. The Company has changed the presentation of the financial statements from millions to thousands. 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 financial statements have been prepared on the historical cost basis, except for derivatives measured at fair value.

**(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, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

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

There are no accounting policies which contain critical estimates and judgements in terms of materiality of the items to which the policies are applied, the high degree of judgement involved and the estimation uncertainty involved.

**(f) Going concern**

The Company had net current liabilities of £4,611k as at 31 December 2019. HSBC Bank plc, the parent undertaking, has committed to ensuring the provision of sufficient funds for a period of not less than twelve months from the date of authorisation of these financial statements, to enable the Company to meet its liabilities as they fall due. Furthermore, based on the lending arrangements held by the Company as at the year end, positive operating cash flows are expected to be generated for more than one year from the date of authorisation of these financial statements. As a result of this, together with the considerations in respect of the impact of the COVID-19 outbreak referred to above, the Directors have prepared the financial statements on a going concern basis.

## 1.2 Summary of significant accounting policies

**(a) Income and expense**

Interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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

Non-interest income and expense

Dividend income is recognised when the right to receive a payment is established. This is usually the date when the shareholders approve the dividend for unlisted equity securities.

**(b) Investments in subsidiaries**

The Company classifies investments in entities which it controls as subsidiaries.

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

The carrying value of Company's investments in subsidiaries are reviewed at each balance sheet date to determine whether there is any indication of impairment. Impairment losses recognised in prior periods are reversed through the income statement, if and only if, there has been a change in the estimates used to determine the recoverable amount of the investment in subsidiary since the last impairment loss was recognised.

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

**(c) Valuation of financial instruments**

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

**(d) Financial instruments measured at amortised cost**

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

Trade and other receivables

These include trade and other receivables originated by the Company, not classified as held for trading or designated at fair value. They are recognised when cash is advanced to a borrower and are derecognised when either the borrower repays its obligations, or the receivables are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance.

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any impairment provisions.

The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. Initial direct costs incurred in arranging the lease, less any fee income related to the lease, are included in the initial measurement of the net investment. Finance income or charges on finance leases net of rebates and variations are recognised over the lease periods so as to give a constant rate of return.

Finance lease cash flow streams that have been acquired from in-force leases written by third party lessors without the acquisition of the underlying leased asset or assumption of the lease obligation to convey the right to use the underlying asset to the lessee do not meet the definition of a lease. Accordingly, such acquired cash flows are measured at amortised cost and disclosed as other receivables.

Trade and other payables

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) Derivatives**

The Company holds derivative financial instruments to manage its exposure to interest rates through swaps.

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Derivatives are designated as hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'), provided certain criteria are met.

Hedge accounting

It is the Company's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items attributable to the hedged risks. Interest on designated qualifying hedges is included in 'interest income'.

Fair value hedge

The Company's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk. If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the residual period to maturity.

Hedge effectiveness testing

To qualify for hedge accounting, each hedge, at the inception of the hedge and throughout its life, must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed.

For fair value hedge relationships, the Company utilises regression analysis as its effectiveness testing methodology. For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. All gains and losses from changes in the fair value of any derivative that do not qualify for hedge accounting are recognised immediately in the income statement.

**(f) Impairment of amortised cost financial assets**

For the impairment of amortised cost financial assets within the scope of IFRS9, the Company has adopted the methodology as developed within the HSBC group and is detailed below.

Expected credit losses ('ECL'), are recognised for 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 so are considered to be in default or otherwise credit-impaired are in 'stage 3'.

Credit-impaired (stage 3)

The Company determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and

- the receivable is otherwise considered to be in default.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

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.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

Unimpaired and without significant increase in credit risk - (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. For receivables that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Company is exposed to credit risk.

*Measurement of ECL*

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, HSBC group calculates ECL using three main components, a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The ECL for stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the HSBC group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Forward-looking economic inputs

HSBC group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate.

HSBC group relies on an average of external forecasts and their distributions to create three scenarios that represent the 'most likely' outcome and two less likely outcomes referred to as the Upside and Downside scenarios. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%, according to the decision of HSBC group's senior management. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. These three scenarios are referred to as the consensus economic scenarios. Additional scenarios are used to specifically address the forward looking risks that management consider are not adequately captured by the consensus. Together, these scenarios represent the approach to the application of forward economic guidance for the calculation of ECL.

The Upside and Downside scenarios are generated once a year, reviewed at each reporting date to ensure that they are an appropriate reflection of management's view and updated if economic conditions change significantly. The Central scenario is generated every quarter.

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward-looking economic conditions described above. As a result, management have assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions as part of the HSBC group ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting ECL.

**(g) 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.

**(h) Property, plant and equipment**

Equipment, fixtures and fittings are stated at cost less any impairment losses and depreciation calculated on a straight-line basis to write-off the assets over their useful lives between 3 and 5 years.

Property, plant and equipment is subject to an impairment review if their carrying amount may not be recoverable. Impairment is calculated on the basis of current and expected future market conditions.

**(i) 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.

**(j) 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.

**(k) Statement of cash flows**

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

A group undertaking acts as a treasury function, providing funding for the Company through an inter-company account.

## 2 Interest income

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Interest income - Other receivables | 2,555 | 4,741 |
| Finance lease income | — | 449 |
| Interest income from other group undertakings | 756 | 20,960 |
| | 3,311 | 26,150 |

## 3 General and administrative expenses

Administrative expenses include £79k (2018: £45,053k) in respect of group management charges payable to another group undertaking.

## 4 Employee compensation and benefits

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

## 5 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2018: nil). The Directors are employed by other companies within the HSBC group and consider that their services to the Company are incidental to their other responsibilities within the HSBC group.

## 6 Auditors' remuneration

The amount incurred by the Company in respect of the audit of these financial statements was £39,900 (2018: £56,000). In the prior year, auditors' remuneration was borne by another group undertaking and therefore not charged in arriving at profit before tax.

There were no non-audit fees incurred during the year (2018: nil).

## 7 Tax

### Tax expense/(credit)

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Current tax** | | |
| UK Corporation tax | | |
| - For this year | 78 | 358 |
| - Adjustments in respect of prior years | 50 | (372) |
| **Total current tax** | 128 | (14) |
| **Deferred tax** | | |
| - Origination and reversals of temporary differences | 182 | (33) |
| - Effects of changes in tax rates | (19) | 4 |
| - Adjustments in respect of prior years | — | (11) |
| **Total deferred tax** | 163 | (40) |
| **Year ended 31 Dec** | 291 | (54) |

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

A reduction in the main rate of UK corporation tax to 17% with effect from 1 April 2020 was enacted in the Finance (No2) Act 2016 on 6 September 2016. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to reflect the planned rate reduction. If the deferred tax asset as at 31 December 2019 were re-measured at 19% it would increase by £82,354.

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax relating to items that are credited directly to equity is nil (2018: nil).

### Tax reconciliation

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | £'000 | (%) | £'000 | (%) |
| Profit before tax | 6,963 | | 6,076 | |
| Tax at 19.00% (2018: 19.00%) | 1,323 | 19.0 | 1,154 | 19.0 |
| Adjustments in respect of prior period liabilities | 50 | 0.7 | (383) | (6.3) |
| Tax rate changes | (19) | (0.3) | 4 | 0.1 |
| Non-taxable income and gains | (1,063) | (15.3) | (870) | (14.4) |
| Other | — | — | 41 | 0.7 |
| **Year ended 31 Dec** | 291 | 4.1 | (54) | (0.9) |

## 8 Deferred tax

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

| | Other temporary differences | |
|---|---|---|
| | 2019 | 2018 |
| | £'000 | £'000 |
| At 1 Jan 2019 | 880 | 854 |
| Income statement (debit)/credit | (163) | 40 |
| Other comprehensive income charge | (8) | (14) |
| **At 31 Dec 2019** | 709 | 880 |

Other temporary differences predominantly relate to derivative instruments.

The amount of deferred tax expected to be recovered within 12 months amounted to £9k.

# 9 Dividends

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Total per share | £'000 | Total per share | £'000 |
| Dividends declared on ordinary shares | | | | |
| First interim dividend | 34.8p | 8,000 | 146.1p | 33,613 |
| Second interim dividend | — | — | 108.7p | 25,000 |
| Third interim dividend | — | — | 65.2p | 15,000 |
| **Total** | 34.8p | 8,000 | 320.0p | 73,613 |

# 10 Analysis of financial assets and liabilities by measurement basis

All financial assets and financial liabilities held by the Company are measured on an ongoing basis at amortised cost except for derivative balances which are held at fair value through profit and loss.

# 11 Fair value of financial instruments carried at fair value

## Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

### Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

(a) Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets at the measurement date.

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

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

Financial instruments carried at fair value and bases of valuation

| | 2019 | | |
|---|---|---|---|
| | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 |
| **Recurring fair value measurements at 31 Dec** | | | |
| **Assets** | | | |
| Derivatives | 2,365 | — | 2,365 |
| **Liabilities** | | | |
| Derivatives | 7,659 | — | 7,659 |

| | 2018 | | |
|---|---|---|---|
| | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 |
| Assets | | | |
| Derivatives | 2,410 | — | 2,410 |
| Liabilities | | | |
| Derivatives | 8,049 | — | 8,049 |

## Reconciliation of fair value measurements in Level 3 financial instruments

During 2019, there were no financial instruments valued on a Level 3 basis. In the prior year, following the adoption of IFRS 9 on 1 January 2018, Level 3 assets classified as Available-for-sale under IAS 39 were re-classified as financial assets at amortised cost. The impact on reserves at 1 January 2018 was a charge of £317k.

The following table provides a reconciliation of the movement in the prior year between opening and closing balances of Level 3 financial instruments, measured at fair value based on unobservable inputs:

| | Assets |
|---|---|
| | Available-for-sale financial assets |
| | £'000 |
| At 1 Jan 2018 | 32,206 |
| Reclassification under IFRS 9 | (32,206) |
| At 31 Dec 2018 | — |

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

Fair values are determined according to the hierarchy set out in Note 11. Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

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

## 13 Trade and other receivables

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Amounts due from other group undertakings | 245,299 | 234,608 |
| Other receivables | 178,550 | 232,499 |
| **At 31 Dec** | **423,849** | 467,107 |

In December 2012 and March 2013, the Company acquired future cash flow streams from finance leases on an arm's length basis from other group companies. The Company did not acquire the underlying lease assets and did not assume any obligation to convey the right to use the assets to the lessee. Accordingly the acquired cash flow streams are presented as other receivables and measured at amortised cost.

The fair values of other receivables and amounts due from other group undertakings are not considered to be significantly different from their carrying values.

The fair value of other receivables is calculated by discounting future receivables, using equivalent current interest rates.

Amounts due from other group undertakings have no fixed date for repayment and are therefore technically repayable on demand. The total of Other receivables due after 1 year amounted to £162,523k (2018: £178,958k).

## 14 Investments in subsidiaries

### Movements on investments

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Cost** | | |
| At 1 Jan | **42,725** | 431,525 |
| Disposals | **(6,023)** | (388,800) |
| **At 31 Dec** | **36,702** | 42,725 |
| **Accumulated impairment** | | |
| At 1 Jan | **(9,734)** | (9,734) |
| Release | **949** | — |
| **At 31 Dec** | **(8,785)** | (9,734) |
| **Net book/carrying value at 1st Jan** | **32,991** | 421,791 |
| **Net book/carrying value at 31st Dec** | **27,917** | 32,991 |

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

| | Country of incorporation | Interest in equity capital (%) | Share class |
|---|---|---|---|
| Assetfinance December (H) Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Assetfinance December (M) Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Assetfinance December (R) Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Assetfinance June (A) Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Assetfinance Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Assetfinance March (B) Limited [2] | **United Kingdom** | **100** | **Ordinary shares** |
| Assetfinance March (F) Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Assetfinance September (F) Limited 1 | **United Kingdom** | **100** | **Ordinary shares** |
| South Yorkshire Light Rail Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Swan National Leasing (Commercials) Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |
| Swan National Limited [1] | **United Kingdom** | **100** | **Ordinary shares** |

*Registered offices:*

*1 8 Canada Square, London E14 5HQ, United Kingdom.*

*2 5 Donegal Square South, Belfast BT1 5JP, Northern Ireland.*

On 20 August 2019, Swan National Leasing (Commercials) Limited went into liquidation. Prior to the liquidation, Swan National Leasing (Commercials) Limited reduced its share capital to 1 ordinary share of £1 and a distribution was made to eliminate retained earnings. From the distribution made, £6,023k was recognised as a return on capital and the remaining balance of £290k was recognised as dividend income. An impairment provision of £949k raised against the subsidiary in prior years was released.

On 13 December 2019, Assetfinance December (M) Limited went into liquidation.

## 15 Property, plant and equipment

| | Equipment, fixtures and fittings | |
|---|---|---|
| | 2019 | 2018 |
| | £'000 | £'000 |
| **Cost** | | |
| At 1 Jan | 627 | 627 |
| Disposals | (627) | – |
| **As at 31 Dec** | – | 627 |
| **Accumulated depreciation** | | |
| At 1 Jan | (627) | (627) |
| Disposals | 627 | – |
| **As at 31 Dec** | – | (627) |
| **Net book value** | | |
| At 1 Jan | – | – |
| **As at 31 Dec** | – | – |

Property, plant and equipment consisted of equipment, fixtures and fittings. All assets were disposed of during the year for nil proceeds.

## 16 Trade and other payables

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Amounts owed to other group undertakings | 29,433 | 28,683 |
| Value added tax | 92 | – |
| Loan notes | 105 | 105 |
| Other | 8 | 11 |
| **At 31 Dec** | 29,638 | 28,799 |

Amounts owed to other group undertakings have no fixed date for repayment and are therefore technically repayable on demand. The fair value is not considered to be significantly different from the carrying value due to their short term nature.

Included above are £105k (2018: £105k) of loan notes issued on the acquisition of Forward Trust Rail Services Limited. The loan notes are unsecured and issued at par with interest payable half yearly at the London Interbank Offered Rate less 0.3%. Loan notes are due for redemption on 28 February 2022 or earlier including:

- After 30 November 1997 and with the consent of the relevant Noteholder, the Company may purchase notes held by the Noteholder, whether by tender, private treaty or otherwise.
- After 30 November 1997 and with one month's notice each Noteholder may request that the Company repay the loan notes at par, provided that the total nominal value of such loan notes is at least £10,000 or comprise of all notes held by the relevant Noteholder.

## 17 Loans from other group undertakings

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Less than one year | 241,199 | 292,192 |
| More than one year and no later than five years | 117,556 | 113,781 |
| **At 31 Dec** | 358,755 | 405,973 |

Loans from other group undertakings comprise both sterling and euro loans from the Company's parent, HSBC Bank plc. Loans in sterling are charged at interest rates ranging from 0.67% to 0.79%. Loans denominated in euros are predominantly charged with negative interest rates ranging from -0.11% to -0.62%.

## 18 Called up share capital

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number | £'000 | Number | £'000 |
| Issued, allotted and fully paid up | | | | |
| Ordinary shares of £1 each | 23,000,000 | 23,000 | 23,000,000 | 23,000 |
| **As at 1 Jan and 31 Dec** | 23,000,000 | 23,000 | 23,000,000 | 23,000 |

## 19 Contingent liabilities, contractual commitments and guarantees

There were no contingent liabilities or financial guarantee contracts as at 31 December 2019 (2018: nil).

## 20 Management of financial risk

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

### Credit risk management

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

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.

#### Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

The following tables analyse loans and other receivables and represent the concentration of exposures on which credit risk are managed.

#### Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

Amounts due from other group undertakings are short term in nature and are therefore not in scope for impairment allowances under IFRS 9.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Gross carrying/ nominal amount** | **Allowance/ Provision for ECL[1]** | Gross carrying/ nominal amount | Allowance/ Provision for ECL[1] |
| | **£'000** | **£'000** | £'000 | £'000 |
| Other receivables | **178,699** | **(149)** | 232,681 | (182) |
| **Total gross carrying amount on balance sheet** | **178,699** | **(149)** | 232,681 | (182) |

*1 The total ECL is recognised in the loss allowance for the financial asset unless the total CL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*

The following table provides an overview of the Company's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

- Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

All balances relate to the corporate and commercial sector of industry.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Gross carrying/ nominal amount** | **Allowance for ECL** | Gross carrying/ nominal amount | Allowance for ECL |
| | **Stage 1** | **Stage 1** | Stage 1 | Stage 1 |
| | **£'000** | **£'000** | £'000 | £'000 |
| Other receivables | **178,699** | **(149)** | 232,681 | (182) |
| **At 31 Dec 2019** | **178,699** | **(149)** | 232,681 | (182) |

Reconciliation of allowances for other receivables

| | 2019 ECL allowance | 2018 ECL allowance |
|---|---|---|
| | £'000 | £'000 |
| At 1 Jan | (183) | (1,442) |
| ECL income statement release for the period | 34 | 302 |
| Transfers to other group undertakings | – | 957 |
| **At 31 Dec** | **(149)** | (183) |
| ECL income statement release for the period | 34 | 302 |
| **Total ECL income release for the period** | **34** | 302 |

### I. 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.

### II. Concentration of credit risk exposure

There are no significant concentrations of risk in the Company.

### Credit quality

Credit quality of financial instruments

The Company assesses the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

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

| | Debt Securities and other bills | Lending and derivatives |
|---|---|---|
| **Quality classification** | **External credit rating** | **Internal credit rating** |
| Strong | A- and above | CRR1 to CRR2 |
| Good | BBB+ to BBB- | CRR3 |
| Satisfactory | BB+ to B and unrated | CRR4 to CRR5 |
| Sub-standard | B- to C | CRR6 to CRR8 |
| Credit-impaired | Default | CRR9 to CRR10 |

The five classifications below describe the credit quality of the Company's lending and derivatives. These categories each encompass a range of more granular, internal credit rating grades assigned to corporate 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 at 31 December 2019

| | Gross carrying/notional amount | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Strong** | **Good** | **Satisfactory** | **Credit impaired** | **Total** | **Allowance provision for ECL** | **Net** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Other receivables | **95,433** | **78,296** | **4,970** | **–** | **178,699** | **(149)** | **178,550** |

Distribution of financial instruments by credit quality at 31 December 2018

| | Gross carrying/notional amount | | | | | | |
|---|---|---|---|---|---|---|---|
| | Strong | Good | Satisfactory | Credit impaired | Total | Allowance provision for ECL | Net |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Other receivables | 189,864 | 36,800 | 6,018 | – | 232,682 | (183) | 232,499 |

Distribution of financial instruments to which the impairment requirements of IFRS 9 are applied by credit quality stage allocation

| | Gross carrying/notional amount | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Strong | Good | Satisfactory | Substandard | Credit Impaired | Total | Allowance provision for ECL | Net |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Other receivables | | | | | | | | |
| - stage 1 | 95,433 | 78,296 | 4,970 | – | – | 178,699 | (149) | 178,550 |
| As at 31 Dec 2019 | 95,433 | 78,296 | 4,970 | – | – | 178,699 | (149) | 178,550 |

| | Gross carrying/notional amount | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Strong | Good | Satisfactory | Substandard | Credit impaired | Total | Allowance provision for ECL | Net |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Other receivables | | | | | | | | |
| - stage 1 | 189,864 | 36,800 | 6,018 | – | – | 232,682 | (183) | 232,499 |
| As at 31 Dec 2018 | 189,864 | 36,800 | 6,018 | – | – | 232,682 | (183) | 232,499 |

Credit impaired loans

The Company determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the receivable is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit impaired.

## Liquidity risk management

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

The 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 Business manages liquidity risk for the Company as described above for risks generally.

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

| | Carrying value | Contractual cash flows | On Demand | Due within 3 months | Due between 3-12 months | Due between 1-5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | 29,546 | 29,546 | 29,433 | – | 113 | – | – | 29,546 |
| Loans from other group undertakings | 358,755 | 359,037 | 17,682 | 136,178 | 87,607 | 117,570 | – | 359,037 |
| Derivatives | 7,659 | 7,561 | – | 339 | 1,006 | 4,370 | 1,846 | 7,561 |
| **At 31 Dec 2019** | **395,960** | **396,144** | **47,115** | **136,517** | **88,726** | **121,940** | **1,846** | **396,144** |

| | Carrying value | Contractual cash flows | On Demand | Due within 3 months | Due between 3-12 months | Due between 1-5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | 28,799 | 28,799 | 28,683 | – | 116 | – | – | 28,799 |
| Loans from other group undertakings | 405,973 | 406,014 | 39,730 | 167,728 | 84,731 | 113,825 | – | 406,014 |
| Derivatives | 8,049 | 8,723 | – | 334 | 1,036 | 4,668 | 2,685 | 8,723 |
| At 31 Dec 2018 | 442,821 | 443,536 | 68,413 | 168,062 | 85,883 | 118,493 | 2,685 | 443,536 |

## 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.

### Interest rate risk

Interest rate is managed at a group level by matching with equivalent fixed rate borrowings, with interest recharged to the Company at cost, after taking the cost of group level risk management into account hence minimising the interest rate sensitivity. The Company also hedges interest rate risk through interest rate swaps.

Analysis of fixed and floating financial assets

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Fixed rate | 262,829 | 253,626 |
| Floating rate | 161,021 | 213,481 |
| Derivatives | 2,365 | 2,410 |
| Cash and cash equivalents | 1,990 | 2,746 |
| | 428,205 | 472,263 |

Analysis of fixed and floating rate financial liabilities

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Fixed rate | 239,743 | 251,890 |
| Floating rate | 148,650 | 182,882 |
| Derivatives | 7,659 | 8,049 |
| | 396,052 | 442,821 |

**Foreign exchange risk**

During the year, the Company has not been exposed to significant foreign exchange risk.

# 21 Related party transactions

## Transaction with other related parties

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

| | 2019 | 2018 |
|---|---|---|
| | Balance at 31 December | Balance at 31 December |
| | £'000 | £'000 |
| Assets | | |
| Cash and cash equivalents | 1,990 | 2,746 |
| Liabilities | | |
| Amounts owed to other group undertakings | 7,048 | 1,550 |
| Loans from other group undertakings | 358,755 | 405,973 |

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Income statement | | |
| Interest income | 676 | — |
| Interest expense | (1,654) | (23,187) |
| General and administrative expenses | (79) | (45,053) |

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

| | 2019 | 2018 |
|---|---|---|
| | Balance at 31 December | Balance at 31 December |
| | £'000 | £'000 |
| Assets | | |
| Amounts due from other group undertakings | 245,299 | 234,608 |
| Investment in subsidiaries | 27,917 | 32,991 |
| Liabilities | | |
| Amounts owed to other group undertakings | 22,385 | 27,133 |

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Income statement | | |
| Interest income | 80 | 20,654 |
| Interest expense | (789) | (305) |

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

# 22 Parent undertakings

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

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

The results of the Company is included in the financial statements of HSBC Holdings plc and HSBC Bank plc.

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

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

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

## 23 Events after the balance sheet date

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing global disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect their economies. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company and its customers, an assessment of the leasing arrangements and cash flows held by the Company has been performed by Management and it is considered that the COVID-19 outbreak is not expected to have a significant impact on the principal risks facing the Company.

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

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