

HSBC Invoice Finance (UK) Limited

Registration No: 759657

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



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

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Strategic Report

Principal activities

The principal activity of HSBC Invoice Finance (UK) Limited (the 'Company') is to provide finance, credit and debt management services and credit protection services for industrial and commercial clients. Services are provided to clients on both a recourse and non-recourse basis. 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

In the prior year, on 1 February 2018, 100% of the Ordinary share capital of the Company was sold to HSBC Bank plc by HSBC Asset Finance Holdings Limited. Furthermore, on 1 July 2018, the immediate parent company changed from HSBC Bank plc to HSBC UK Bank plc in order to meet the regulatory ring-fencing requirements in accordance with the UK Financial Services (Banking Reform) Act 2013 and associated secondary legislation and regulatory rules.

Consequently, in the prior year up to 30 June 2018, the Company was funded principally by another group undertaking, HSBC Asset Finance (UK) Limited, through borrowing. From 1 July 2018, as a result of the ring-fencing requirements detailed above, funding was provided by its immediate parent, HSBC UK Bank plc.

There have been no significant changes to the Company's business during the year ended 31 December 2019.

The Company has no employees. Services required are provided by fellow HSBC Group companies and management fees are charged accordingly. 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 the Company's 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. An example of a principal decision taken by the Company during the year is the approval of a dividend payment to the Company's sole shareholder, HSBC UK. Prior to approving the dividend, consideration was given to the company's obligations under the Companies Act 2006, the benefits and risks of the proposed dividend payment, the long term interests of the Company, as well as the interests of HSBC UK and the wider HSBC Group.

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. Profit for the year amounted to £28,050k (2018: £94,256k).

The balance sheet shows total assets of £5,146,950k as at 31 December 2019 compared to £5,244,244k as at the previous year end. Trade payables have decreased from £727,827k at 31 December 2018 to £700,199k at 31 December 2019.

During the year the Company incurred an impairment charge amounting to £25,734k (2018: £19,362k credit).

Key performance indicators

The key performance indicators used by management in assessing the performance of the Company are levels of income and expenditure and the carrying values of debtors and advances, which are shown in the income statement and the balance sheet respectively. Monthly management accounts are prepared and reviewed by the management of the HSBC Business in which the Company resides.

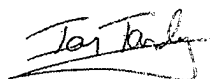
Principal risks and uncertainties

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 18 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 18, 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, the COVID-19 outbreak is not considered to have a significant impact on the principal risks facing the Company.

On behalf of the Board



I J Tandy
Director

17 June 2020

Registered office
21 Farncombe Road
Worthing
Sussex BN11 2BW
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
N D Hampton		
C S Hawes		6 January 2020
M K Adams		18 March 2020
M J Moffatt		
I J Tandy		
S J P Burdett	5 July 2019	
M E Rothbury	11 December 2019	

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.

Dividends

Interim dividends of £94,000k were paid on the ordinary share capital during the year (2018: £36,000k). Details of dividend payments made during the year are included in Note 8 and payments are reflected in the financial statements in the year in which they are paid.

The Directors intend to declare an interim dividend of £18,000k in respect of retained earnings from the year ended 31 December 2019, payable in the year ending 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, the COVID-19 outbreak is not considered 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 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 COVID-19 outbreak referred to above, together with future projections of profitability, cash flows and capital resources.

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 18 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 following statement, which should be read in conjunction with the auditor's statement of their responsibilities set out in their report on page 6, is made with a view to distinguish the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

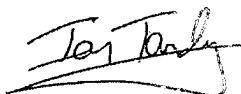
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

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

On behalf of the Board



I J Tandy
Director

17 June 2020

Registered office
21 Farncombe Road
Worthing
Sussex BN11 2BW
United Kingdom

Independent Auditors' Report to the members of HSBC Invoice Finance (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Invoice 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 to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements 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 members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

Dated: 18 June 2020

Financial statements

Income statement for the year ended 31 December 2019

		2019	2018
	Notes	£'000	£'000
Interest income		119,281	111,808
Interest expense		(46,796)	(37,987)
Net interest income		72,485	73,821
Fee and commission income		86,648	99,207
Fee and commission expense		(3,565)	(3,538)
Net fee income		83,083	95,669
Net operating income before loan impairment charges and other credit risk provision		155,568	169,490
Loan impairment (charges)/ credit and other credit risk provisions		(25,734)	19,362
Net operating income		129,834	188,852
General and administrative expenses	2	(95,206)	(72,487)
Total operating expenses		(95,206)	(72,487)
Operating profit		34,628	116,365
Profit before tax		34,628	116,365
Tax expense	6	(6,578)	(22,109)
Profit for the year		28,050	94,256

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).

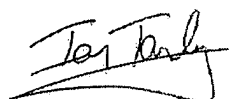
Balance sheet at 31 December 2019

Registration No: 759657

	Notes	2019 £'000	2018 £'000
Assets			
Cash and cash equivalents	9	159,937	120,161
Trade and other receivables	12	4,986,216	5,123,176
Deferred tax assets	7	797	907
Total assets		5,146,950	5,244,244
Liabilities and equity			
Liabilities			
Bank overdrafts with parent undertakings	9	146,947	123,356
Trade and other payables	13	4,812,335	4,867,539
Current tax liabilities		6,468	21,998
Provisions	14	15,799	—
Total liabilities		4,981,549	5,012,893
Equity			
Called up share capital	16	137,000	137,000
Retained earnings		28,401	94,351
Total equity		165,401	231,351
Total liabilities and equity		5,146,950	5,244,244

The accompanying notes on pages 11 to 25 form an integral part of these financial statements.

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



I J Tandy
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		34,628	116,365
Adjustments for:			
Non-cash items included in profit before tax		40,727	(25,220)
Change in operating assets		138,438	(166,843)
Change in operating liabilities		(27,279)	(43,609)
Tax paid		(22,000)	(9,757)
Net cash generated from/(used in) operating activities		164,514	(129,064)
Cash flows from financing activities			
Reduction in amounts owed to other group undertakings		(27,924)	(3,940,351)
Increase in amounts owed to other group undertakings		—	4,129,367
Increase in amounts due from other group undertakings		(25,645)	(156,980)
Dividends paid		(94,000)	(36,000)
Net cash used in financing activities		(147,569)	(3,964)
Net increase/(decrease) in cash and cash equivalents		16,945	(133,028)
Cash and cash equivalents brought forward		(3,195)	133,112
Effect of exchange rate changes on cash and cash equivalents		(760)	(3,279)
Cash and cash equivalents carried forward	9	12,990	(3,195)

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
As at 1 Jan 2019	137,000	94,351	231,351
Profit for the year	—	28,050	28,050
Total comprehensive income for the year	—	28,050	28,050
Dividends to shareholders	—	(94,000)	(94,000)
At 31 Dec 2019	137,000	28,401	165,401

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 Jan 2018	137,000	40,935	177,935
Impact of IFRS9 at 1 Jan 2018	—	(4,840)	(4,840)
At 1 Jan 2018	137,000	36,095	173,095
Profit for the year	—	94,256	94,256
Total comprehensive income for the year	—	94,256	94,256
Dividends to shareholders	—	(36,000)	(36,000)
At 31 Dec 2018	137,000	94,351	231,351

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. Adoption had no impact on the results or net assets 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. All amounts have been rounded to the nearest thousand unless otherwise stated.

The financial statements have been prepared on the historical cost basis.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' in section 1.2 to follow, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

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

(f) 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 COVID-19 outbreak, together with future projections of profitability, cash flows 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.

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.

HSBC Invoice Finance (UK) Limited

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

Fee income is earned from providing a variety of services including debt collection, sales ledger management, credit protection and administration. Some service fees are charged on a fixed basis when a specific transaction is delivered. The majority of fees are on a variable basis and are only recognised when all uncertainties are resolved. 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; and
- Income earned from the provision of services is recognised as revenue as the services are provided.

A proportion of factoring administration charges, representing initial cost, is released to the income statement at the time the debts are factored, with the balance being released on collection of the factored debt.

Credit is taken for collection commission receivable from clients for whom debt recovery services are provided on the basis of collections received during the financial period. In respect of non-performing debt portfolios, a proportion of cash received is credited to the income statement based on the amount by which total recoveries are expected to exceed the cost of the debt acquired.

(b) Valuation of financial instruments

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

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

(c) 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 allowances.

Financial liabilities

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

(d) 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 receivables 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 receivables that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

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, 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.

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.

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

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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.

Critical accounting estimates and judgements

The calculation of the Company's ECL under IFRS 9 requires number of judgements, assumptions and estimates to be made. The most significant are set out below:

Judgements	Estimates
<ul style="list-style-type: none">Defining what is considered to be a significant increase in credit riskSelecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditionsSelecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	<ul style="list-style-type: none">Assumptions from multiple forecasted economic scenarios are applied to credit risk models to estimate future credit losses and probability-weight the results in determining an unbiased ECL estimate.

(e) 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.

(f) Provisions and contingent liabilities

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.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
<ul style="list-style-type: none">Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations.	<ul style="list-style-type: none">Provisions for customer remediation also require significant levels of estimation. The amounts of provisions recognised depend on a number of different assumptions, such as the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the populations identified as systemically mis-sold and the number of agreements per customer complaint.

Contingent liabilities

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

(g) 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.

(h) 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.

(i) 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 General and administrative expenses

Administrative expenses include £94,421k (2018: £72,406k) in respect of group management charges payable to a parent undertaking. The amount incurred for group management charges has increased during 2019 as a result of a change in the allocation basis of overhead costs applicable to the Company. The impact of the reallocation amounted to additional charges of £12,629k during the year.

3 Employee compensation and benefits

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

4 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:

	2019 £'000	2018 £'000
Directors' emoluments for services to the Company	46	—
Pension contributions	6	—
Year ended 31 Dec	52	—
Number of directors who:	No	No
are members of money purchase schemes	1	—

In the current year and prior year, no emoluments were received by the remaining Directors in respect of their services to the Company as they consider that their services to the Company are incidental to their other responsibilities within the HSBC group. All Directors are employed by other companies within the HSBC group.

In the current year, the emoluments of the highest paid director, including benefits in kind and pension contributions, were not applicable for disclosure in the financial statements.

5 Auditors' remuneration

The amount incurred by the Company in respect of the audit of these financial statements was £73,501 (2018: £86,000). 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).

6 Tax

Tax expense

	2019 £'000	2018 £'000
Current tax		
UK Corporation tax		
- For this year	6,468	21,998
Total current tax	6,468	21,998
Deferred tax		
- Origination and reversals of temporary differences	111	111
- Effects of changes in tax rates	3	—
- Adjustments in respect of prior years	(4)	—
Total deferred tax	110	111
Year ended 31 Dec	6,578	22,109

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 now 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 be measured at 17%. The estimated impact of the rate change is an increase in the carrying value of the deferred tax asset of £93,725.

Tax reconciliation

	2019 £'000	(%)	2018 £'000	(%)
Profit before tax	34,628		116,365	
Tax at 19.00% (2018: 19.00%)	6,579	19.0	22,109	19.0
Adjustments in respect of prior period liabilities	(4)	—	—	—
Effect of changes in tax rates	3	—	—	—
Year ended 31 Dec	6,578	19.0	22,109	19.0

7 Deferred tax

	Other temporary differences	
	2019 £'000	2018 £'000
At 1 Jan	907	—
Impact on transition to IFRS 9 at 1 Jan 2018	—	1,018
Income statement debit	(114)	(111)
Prior year adjustments	4	—
At 31 Dec	797	907

Deferred income tax assets are recognised for IFRS 9 Transitional adjustments in respect of impairment provisions to the extent that the realisation of the related tax benefit through future taxable group profits is probable.

The amount of deferred tax expected to be recovered within 12 months amounted to £100k (2018: £796k).

8 Dividends

	2019		2018	
	£ per share	£'000	£ per share	£'000
First interim dividend	0.69	94,000	0.26	36,000
Total	0.69	94,000	0.26	36,000

9 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents held with parent undertakings	159,937	120,161
Bank overdrafts held with parent undertakings	(146,947)	(123,356)
At 31 Dec	12,990	(3,195)

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.

11 Fair value of financial assets and liabilities

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2019 and 31 December 2018 due to their short term nature.

12 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	4,802,957	4,965,542
Amounts due from other group undertakings	182,625	156,980
Other debtors	634	654
At 31 Dec	4,986,216	5,123,176

Amounts due from other group undertakings have no fixed date for repayment and are therefore technically repayable on demand.

13 Trade and other payables

	2019 £'000	2018 £'000
Amounts owed to other group undertakings	4,101,443	4,129,367
Trade payables	700,199	727,827
Other creditors	5,593	5,427
Value added tax	5,100	4,918
At 31 Dec	4,812,335	4,867,539

Trade payables comprise the amounts due to non-recourse clients on collection, and are expected to be settled within 12 months of the reporting date.

14 Provisions

	Customer remediation £'000	Total £'000
Provisions (excluding contractual commitments)		
At 1 Jan 2019	—	—
Additions	14,993	14,993
At 31 Dec 2019	14,993	14,993
Contractual commitments¹		
At 1 Jan 2019	—	—
Net change in expected credit loss provision	—	806
At 31 Dec 2019		806
Total Provisions		15,799
At 31 Dec 2019		15,799

¹ The contractual commitments include the provisions for contingent liabilities measured under IFRS 9 Financial instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.

Customer fee and mischarging related matters

At 31 December 2019, the customer remediation provision of £14,993k relates to the estimated liability for redress in respect of customer fee and mischarging related matters. This follows internal reviews to identify any issues for which provisions had not previously been raised and is based on sampling and analysis performed to date for each of the matters.

15 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	159,937	—	—	—	—	—	159,937
Trade receivables	2,367,449	1,727,759	653,122	54,627	—	—	4,802,957
Amounts due from other group undertakings	182,625	—	—	—	—	—	182,625
Non-financial assets	—	—	—	—	—	1,431	1,431
At 31 Dec 2019	2,710,011	1,727,759	653,122	54,627	—	1,431	5,146,950
Liabilities and Equity							
Bank overdrafts with parent undertakings	146,947	—	—	—	—	—	146,947
Trade payables	700,199	—	—	—	—	—	700,199
Amounts owed to other group undertakings	988,444	1,274,772	1,838,227	—	—	—	4,101,443
Other financial liabilities	—	5,593	—	—	—	—	5,593
Non-financial liabilities	—	—	—	—	—	27,367	27,367
At 31 Dec 2019	1,835,590	1,280,365	1,838,227	—	—	27,367	4,981,549

	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	120,161	—	—	—	—	—	120,161
Trade receivables	250,987	4,064,374	650,181	—	—	—	4,965,542
Amounts due from other group undertakings	156,980	—	—	—	—	—	156,980
Non-financial assets	—	—	—	—	—	1,561	1,561
At 31 Dec 2018	528,128	4,064,374	650,181	—	—	1,561	5,244,244
Liabilities and Equity							
Bank overdrafts with parent undertakings	123,356	—	—	—	—	—	123,356
Trade payables	727,827	—	—	—	—	—	727,827
Amounts owed to other group undertakings	577,560	1,237,298	2,314,509	—	—	—	4,129,367
Other financial liabilities	—	5,427	—	—	—	—	5,427
Non-financial liabilities	—	—	—	—	—	26,916	26,916
At 31 Dec 2018	1,428,743	1,242,725	2,314,509	—	—	26,916	5,012,893

Prior year balances in respect of Amounts due from other group undertakings and Trade payables have been restated. They have been re-classified to the On demand category as considered more appropriate to the nature of the balances.

16 Called up share capital

	2019		2018	
	Number	£'000	Number	£'000
Issued, allotted and fully paid up				
Ordinary shares of £1 each	137,000,000	137,000	137,000,000	137,000
As at 1 January and 31 December	137,000,000	137,000	137,000,000	137,000

17 Contingent liabilities, contractual commitments and guarantees

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

As at 31 December 2019 and 31 December 2018, the Company had commitments to customers in respect of undrawn facilities.

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.

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Company's business. The Company's risk management policies are consistent with HSBC's risk management policies.

The Company participates in transactions to which other HSBC group companies are also party. The HSBC business in which this company resides (the 'Business') has an established risk management process which considers the risks at the outset and on an ongoing basis in relation to each transaction from the Business' perspective - this will consolidate the risks of participating companies and, as such, offsetting risks will be eliminated. To the extent there is any residual risk, management will mitigate this by implementing appropriate instruments and these will reside in the relevant Company.

As part of that process, the Business' management will review the monthly management accounts of the Business. There were no changes in the Company's approach to risk management during the year.

Credit risk management

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

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 receivables by industry sector and represent the concentration of exposures on which credit risk are managed.

The IFRS 9 allowance for ECL has increased from £20,209k at 31 December 2018 to £34,475k at 31 December 2019. This increase is due to additional impairment provisions required during the year. The impairment charge relating to additional provisions required amounted to £25,734k. In the prior year, impairment provisions were released where no longer required, resulting in an overall impairment credit of £19,362k.

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

	2019		2018	
	Gross carrying/ nominal amount	Allowance/ Provision for ECL ¹	Gross carrying/ nominal amount	Allowance/ Provision for ECL
	£'000	£'000	£'000	£'000
Loans and advances to customers at amortised cost	4,836,626	(33,669)	4,985,751	(20,209)
- corporate and commercial	4,830,171	(33,669)	4,969,436	(20,201)
- non-bank financial institutions	6,455	—	16,315	(8)
Total gross carrying amount on balance sheet	4,836,626	(33,669)	4,985,751	(20,209)
Loans and other credit related commitments ³	2,150,226	(806)	1,899,280	—
- corporate and commercial	2,150,226	(806)	1,899,280	—
Total nominal amount off-balance sheet^{2,3}	2,150,226	(806)	1,899,280	—
As at 31 Dec³	6,986,852	(34,475)	6,885,031	(20,209)

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.

² Represents the maximum amount at risk should the contracts be fully drawn upon and client default.

³ Prior year balances have been restated. Further detail on the restatement is included on p20 under Re-presentation of gross carrying/nominal amounts staging.

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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.

	Gross carrying/nominal amount			Allowance for ECL			ECL Coverage %		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	£'000	£'000	£'000	£'000	£'000	£'000	%	%	%
Loans and advances to customers at amortised cost	3,967,936	807,964	60,726	(2,411)	(4,367)	(26,891)	0.1	0.5	44.3
- corporate and commercial	3,966,438	807,959	55,774	(2,411)	(4,367)	(26,891)	0.1	0.5	48.2
- non-bank financial institutions	1,498	5	4,952	—	—	—	—	—	—
Loan and other credit-related commitments	1,924,015	216,000	10,211	—	—	(806)	—	—	7.9
- corporate and commercial	1,924,015	216,000	10,211	—	—	(806)	—	—	7.9
At 31 Dec 2019	5,891,951	1,023,964	70,937	(2,411)	(4,367)	(27,697)	—	0.4	39.0

	Gross carrying/nominal amount			Allowance for ECL			ECL Coverage %		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	£'000	£'000	£'000	£'000	£'000	£'000	%	%	%
Loans and advances to customers at amortised cost ¹	4,145,779	794,020	45,952	(2,043)	(3,796)	(14,370)	—	0.5	31.3
- corporate and commercial ¹	4,129,468	794,016	45,952	(2,035)	(3,796)	(14,370)	—	0.5	31.3
- non-bank financial institutions	16,311	4	—	(8)	—	—	—	—	—
Loan and other credit-related commitments ²	1,753,858	137,076	8,346	—	—	—	—	—	—
- corporate and commercial ²	1,753,858	137,076	8,346	—	—	—	—	—	—
At 31 Dec 2018 ^{1,2}	5,899,637	931,096	54,298	(2,043)	(3,796)	(14,370)	—	0.4	26.5

Further detail on the following footnotes is included on p20 under Re-presentation of gross carrying/nominal amounts staging.

¹ Balances have been restated in respect of an adjustment relating to UK economic uncertainty.

² Balances have been restated in respect of amounts relating to Loans and other credit-related commitments.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from stage 1 to stage 2. The disclosure below presents the aging of stage 2 financial assets by those less than 30 days past due and therefore presents those financial assets classified as stage 2 due to aging (30 days past due) and those identified at an earlier stage (less than 30 days past due). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 past due analysis at 31 December 2019

	Gross carrying/nominal amount		Allowance for ECL		ECL coverage %	
	Of which		Of which		Of which	
	Stage 2	30 and > Days past due ¹	Stage 2	30 and > Days past due	Stage 2	30 and > Days past due
	£'000	£'000	£'000	£'000	%	%
Loans and advances to customers at amortised cost	807,964	26,416	(4,367)	(13)	0.5	—
- corporate and commercial	807,959	26,416	(4,367)	(13)	0.5	—
- non-bank financial institutions	5	—	—	—	—	—

Stage 2 past due analysis at 31 December 2018

	Gross carrying/nominal amount		Allowance for ECL		ECL coverage %	
	Of which		Of which		Of which	
	Stage 2	30 and > Days past due ¹	Stage 2	30 and > Days past due	Stage 2	30 and > Days past due
	£'000	£'000	£'000	£'000	%	%
Loans and advances to customers at amortised cost ²	794,020	1,278	(3,796)	(1)	0.5	0.1
- corporate and commercial	794,016	1,278	(3,796)	(1)	0.5	0.1
- non-bank financial institutions	4	—	—	—	—	—

¹ Up to date accounts in stage 2 are not shown in amounts presented above.

² Balances have been restated in respect of an adjustment relating to UK economic uncertainty. Further detail on the restatement is included on p20 under Re-presentation of gross carrying/nominal amounts staging.

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Reconciliation of allowances for trade receivables

	2019	2,018
	ECL allowance	ECL allowance
	£'000	£'000
At 1 Jan	(20,209)	(54,949)
ECL income statement (charge)/release for the period	(25,734)	19,362
Assets written off	10,420	16,236
Exchange and other movements	1,048	(858)
As at 31 Dec	(34,475)	(20,209)

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. For recourse factored debt receivables, the Company has recourse to its clients in respect of uncollectable amounts.

II. Concentration of credit risk exposure

There are no significant concentrations of risk in the Company.

Credit deterioration of financial instruments

A summary of current policies and practices regarding the identification, treatment and measurement of stage 1, stage 2 and stage 3 (credit impaired) can be found in note 1.2 of the financial statements.

Reconciliation of changes in gross carrying/nominal amount and allowances for Trade and other receivables including loan commitments and financial guarantees

The following disclosure provides a reconciliation of the Company's gross carrying/nominal amount and allowances for Trade and other receivables including loan commitments and financial guarantees.

The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the increase in ECL due to these transfers.

Re-presentation of gross carrying/nominal amounts staging

The gross carrying/nominal amounts in stages 1 and 2 which were disclosed at 31 December 2018 have been re-presented to reflect the UK economic uncertainty adjustment which was not previously included. In comparison, the allowance for ECL did reflect the UK economic uncertainty adjustment. As a result of the re-presentation, there has been an increase in stage 2 amounts of £156,927k, with a corresponding decrease in stage 1.

In addition to the above, following the sign off of the prior year financial statements, it was identified that amounts relating to Loans and other credit-related commitments were in scope under IFRS 9 reporting requirements. Consequently, these amounts have been re-presented in the comparative figures. The impact of the re-presentation is to increase the amount relating to Loans and other credit-related commitments as at 31 December 2018 by a total of £1,899,280k. Furthermore, the amounts relating to Loans and other credit-related commitments increased at 1 January 2018 by a total of £1,787,893k. Further analysis in respect of the staging and credit quality of gross carrying/nominal amounts is detailed in the following tables. There was no material impact on ECL in relation to the amounts re-presented.

HSBC Invoice Finance (UK) Limited

	Non credit - impaired				Credit impaired		Total	
	Stage 1		Stage 2					
	Gross carrying / nominal amount	Allowance /provision for ECL	Gross carrying / nominal amount	Allowance /provision for ECL	Gross carrying / nominal amount	Allowance /provision for ECL	Gross carrying / nominal amount	Allowance /provision for ECL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 Jan 2019	5,899,637	(2,043)	931,096	(3,796)	54,298	(14,370)	6,885,031	(20,209)
Transfer of financial instruments:	(386,869)	(2,256)	318,349	2,507	68,502	(254)	(18)	(3)
- transfers from stage 1 to stage 2	(967,027)	632	967,027	(632)	—	—	—	—
- transfers from stage 2 to stage 1	594,804	(2,759)	(594,804)	2,759	—	—	—	—
- transfers to stage 3	(19,893)	53	(73,473)	411	93,352	(464)	(14)	—
- transfers from stage 3	5,247	(182)	19,599	(31)	(24,850)	210	(4)	(3)
- Net remeasurement of ECL arising from transfer of stage	—	2,021	—	—	—	—	—	2,021
Changes due to modifications not derecognised	—	—	—	—	—	5	—	5
New financial assets originated and purchased	596,941	(206)	—	—	—	—	596,941	(206)
Changes to risk parameters - Further lending/(repayment)	48,771	(59)	(138,628)	(3,332)	(33,056)	(26,284)	(122,913)	(29,675)
Asset derecognised (including final repayments)	(266,529)	132	(86,853)	254	(8,037)	1,373	(361,419)	1,759
Assets written off	—	—	—	—	(10,420)	10,420	(10,420)	10,420
Others	—	—	—	—	(350)	1,413	(350)	1,413
At 31 Dec 2019	5,891,951	(2,411)	1,023,964	(4,367)	70,937	(27,697)	6,986,852	(34,475)
ECL income statement charge for the period	—	239	—	699	—	25,180	—	26,118
Recoveries	—	—	—	—	—	(384)	—	(384)
Others	—	—	—	—	—	—	—	—
Total ECL income charge for the period								25,734

	Non credit - impaired				Credit impaired		Total	
	Stage 1		Stage 2					
	Gross carrying / nominal amount	Allowance /provision for ECL	Gross carrying / nominal amount	Allowance/ provision for ECL	Gross carrying / nominal amount	Allowance/ provision for ECL	Gross carrying / nominal amount	Allowance/ provision for ECL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 Jan 2018 ²	5,971,233	(2,232)	560,465	(4,318)	87,290	(48,399)	6,618,988	(54,949)
Transfer of financial instruments:	(401,987)	(477)	308,099	998	93,888	(521)	—	—
- transfers from stage 1 to stage 2	(819,164)	531	819,164	(531)	—	—	—	—
- transfers from stage 2 to stage 1	449,661	(840)	(449,661)	840	—	—	—	—
- transfers to stage 3	(35,738)	19	(64,451)	1,128	100,189	(1,147)	—	—
- transfers from stage 3	3,254	(187)	3,047	(439)	(6,301)	626	—	—
- Net remeasurement of ECL arising from transfer of stage	—	641	—	(282)	—	—	—	359
Net new and further lending/ (repayments) ²	487,318	(296)	(94,395)	458	(110,644)	7,863	282,279	8,025
Changes to risk parameters (model inputs)	—	321	—	(652)	—	10,451	—	10,120
Assets written off	—	—	—	—	(16,236)	16,236	(16,236)	16,236
Others ¹	(156,927)	—	156,927	—	—	—	—	—
At 31 Dec 2018 ^{1,2}	5,899,637	(2,043)	931,096	(3,796)	54,298	(14,370)	6,885,031	(20,209)
ECL income statement release for the period	—	(190)	—	(522)	—	(17,792)	—	(18,504)
Recoveries	—	—	—	—	—	(786)	—	(786)
Others	—	—	—	—	—	—	—	(72)
Total ECL income release for the period								(19,362)

Further detail on the following footnotes is included on p20 under Re-presentation of gross carrying/nominal amounts staging.

¹ Balances have been restated in respect of an adjustment relating to UK economic uncertainty.

² Balances have been restated in respect of amounts relating to Loans and other credit-related commitments.

III. 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 ratings:

Quality classification	Debt Securities and other bills	Lending
	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

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

	Gross carrying/notional amount						Allowance provision for ECL	Net
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	159,937	—	—	—	—	159,937	—	159,937
Amount due from other group undertakings	182,625	—	—	—	—	182,625	—	182,625
Trade receivables	118,723	2,070,584	2,167,322	419,271	60,726	4,836,626	(33,669)	4,802,957
Other financial assets held at amortised cost	—	—	634	—	—	634	—	634
Loans and other credit related commitments	135,219	1,399,460	566,151	39,185	10,211	2,150,226	(806)	2,149,420
At 31 Dec 2019	596,504	3,470,044	2,734,107	458,456	70,937	7,330,048	(34,475)	7,295,573

	Gross carrying/notional amount						Allowance provision for ECL	Net
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	120,161	—	—	—	—	120,161	—	120,161
Amount due from other group undertakings	156,980	—	—	—	—	156,980	—	156,980
Trade receivables	228,455	1,908,784	2,404,529	398,031	45,952	4,985,751	(20,209)	4,965,542
Other financial assets held at amortised cost	—	—	654	—	—	654	—	654
Loans and other credit related commitments ¹	108,172	1,204,460	546,411	31,891	8,346	1,899,280	—	1,899,280
At 31 Dec 2018 ¹	613,768	3,113,244	2,951,594	429,922	54,298	7,162,826	(20,209)	7,142,617

¹ Balances have been restated in respect of an adjustment relating to Loans and other credit-related commitments. Further detail is included on p20 under Re-presentation of gross carrying/nominal amounts staging.

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

	Gross carrying/notional amount					Total £'000	Allowance provision for ECL £'000	Net £'000
	Strong £'000	Good £'000	Satisfactory £'000	Substandard £'000	Credit impaired £'000			
Trade receivables	118,723	2,070,584	2,167,322	419,271	60,726	4,836,626	(33,669)	4,802,957
- stage 1	118,723	2,035,418	1,801,429	12,366	—	3,967,936	(2,411)	3,965,525
- stage 2	—	35,166	365,893	406,905	—	807,964	(4,367)	803,597
- stage 3	—	—	—	—	60,726	60,726	(26,891)	33,835
Loans and other credit related commitments	135,219	1,399,460	566,151	39,185	10,211	2,150,226	(806)	2,149,420
- stage 1	129,865	1,385,095	407,718	1,337	—	1,924,015	—	1,924,015
- stage 2	5,354	14,365	158,433	37,848	—	216,000	—	216,000
- stage 3	—	—	—	—	10,211	10,211	(806)	9,405
At 31 Dec 2019	253,942	3,470,044	2,733,473	458,456	70,937	6,986,852	(34,475)	6,952,377

	Gross carrying/notional amount					Total £'000	Allowance provision for ECL £'000	Net £'000
	Strong £'000	Good £'000	Satisfactory £'000	Substandard £'000	Credit impaired £'000			
Trade receivables	228,455	1,908,784	2,404,529	398,031	45,952	4,985,751	(20,209)	4,965,542
- stage 1 ¹	228,399	1,905,351	1,981,568	30,461	—	4,145,779	(2,043)	4,143,736
- stage 2 ¹	56	3,433	422,961	367,570	—	794,020	(3,796)	790,224
- stage 3	—	—	—	—	45,952	45,952	(14,370)	31,582
Loans and other credit related commitments ²	108,172	1,204,460	546,411	31,891	8,346	1,899,280	—	1,899,280
- stage 1 ²	102,589	1,188,811	458,825	3,633	—	1,753,858	—	1,753,858
- stage 2 ²	5,583	15,649	87,586	28,258	—	137,076	—	137,076
- stage 3 ²	—	—	—	—	8,346	8,346	—	8,346
At 31 Dec 2018²	336,627	3,113,244	2,950,940	429,922	54,298	6,885,031	(20,209)	6,864,822

Further detail on the following footnotes is included on p20 under Re-presentation of gross carrying/nominal amounts staging.

¹ Balances have been restated in respect of an adjustment relating to UK economic uncertainty.

² Balances have been restated in respect of amounts relating to Loans and other credit-related commitments

Credit impaired receivables

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 unlikelihood 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 receivables 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 risk arises from mismatches in the timing of cash flows.

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings.

The Company's assets, are funded principally by borrowings from another group undertaking, which acts as a treasury function providing funds as required through an inter-company current account. Interest on this balance is charged on a cost basis and is reflected in the income statement. This funding has no fixed repayment date and therefore is technically repayable on demand.

HSBC Invoice Finance (UK) Limited

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

	On Demand £'000	Due within 3 months £'000	Due between 3-12 months £'000	Total £'000
Bank overdrafts with parent undertakings	146,947	—	—	146,947
Trade payables	700,199	—	—	700,199
Amounts owed to other group undertakings	988,444	1,274,772	1,838,227	4,101,443
Other financial liabilities	—	5,593	—	5,593
At 31 Dec 2019	1,835,590	1,280,365	1,838,227	4,954,182
Bank overdrafts with parent undertakings	123,356	—	—	123,356
Trade payables	727,827	—	—	727,827
Amounts owed to other group undertakings	577,559	1,237,298	2,314,510	4,129,367
Other financial liabilities	—	5,427	—	5,427
At 31 Dec 2018	1,428,742	1,242,725	2,314,510	4,985,977

Prior year balances in respect of Trade payables have been restated. They have been re-classified to the On demand category as considered more appropriate to the nature of the balances.

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce the Company's income. The Company matches assets and liabilities in foreign currencies and converts any remaining balances on a regular basis, to minimise foreign currency risk.

There is no interest risk due to the short term nature of assets and equivalent funding.

19 Related party transactions

Transaction with other related parties

The Company provides funding for another group undertaking, HSBC Equipment Finance (UK) Limited. An amount of £137,326k was outstanding as at 31 December 2019 which has no fixed date for repayment and is therefore technically repayable on demand. Interest on the inter-company account is charged based on an average fixed rate of funding.

All other amounts owed by/owed to other group undertakings relate to HSBC UK Bank plc.

As at 31 December 2019, the Company holds bank current accounts amounting to £405k (2018: £1,054k) with HSBC Bank USA. All other bank current accounts are held with HSBC UK Bank plc. All bank current accounts are maintained on normal commercial terms.

Interest expense and group management charges were charged by HSBC Asset Finance (UK) Limited up to 30 June 2018. From 1 July 2018, all amounts were charged by HSBC UK Bank plc. Administrative expenses include £94,421k (2018: £72,406k) in respect of group management charges.

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

	2019		2018	
	Highest balance during the year £'000	Balance at 31 December £'000	Highest balance during the year £'000	Balance at 31 December £'000
Assets				
Amounts owed by other group undertakings	210,289	182,625	157,247	156,980
Liabilities				
Amounts owed to other group undertakings	4,364,011	4,101,443	4,237,493	4,129,367
Income statement				
Interest income			1,123	453
Interest expense			46,796	37,987

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.

20 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. All companies are registered in England and Wales.

Copies of HSBC Holdings plc 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

21 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, the COVID-19 outbreak is not considered 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.