Assetfinance June (A) Limited

Registration No: 1143820

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 Assetfinance June (A) Limited (the 'Company') is to lease assets to third party lessees for an agreed term under finance lease arrangements. 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 leasing transactions written in previous years.

Where relevant, another group undertaking, HSBC Asset Finance (UK) Limited provides agency services to the Company. The services provided include seeking new business, negotiating and agreeing terms and arranging the execution of all lease documents on behalf of the Company, as well as maintaining accurate accounting and other records such as borrowing funds and settlement of all invoices relating to the services.

The business is funded principally by another group undertaking through retained earnings and equity. 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 the financial year, 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 financial year are deemed to be routine in nature and are taken on a cyclical basis. During the financial year, the decisions taken by the Company were related to approval of the annual accounts and change in the company secretary for the entity. Hence, there was no principal decision made or undertaken by the Company during the financial year.

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.

Key performance indicators

As the Company is managed as part of the 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 13 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 13, 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 macroeconomic 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 Management do not consider there has been any significant impact on the valuation of its assets up to the date of signing the financial statements. However, given the ongoing uncertainty of the full extent of the COVID-19 outbreak on the valuation of the Company's assets, Management will monitor the impact during 2020 and beyond, for any adverse effects on the financial performance and financial position of 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

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: nil).

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 Management do not consider there has been any significant impact on the valuation of its assets up to the date of signing the financial statements. However, given the ongoing uncertainty of the full extent of the COVID-19 outbreak on the valuation of the Company's assets, Management will monitor the impact during 2020 and beyond, for any adverse effects on the financial performance and financial position of 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 13 of the Notes on the financial statements.

Capital measurement

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 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 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 Assetfinance June (A) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Assetfinance June (A) 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 £	2018 £
Interest income		5,397	4,055
Net interest income		5,397	4,055
Operating profit	2	5,397	4,055
Profit before tax		5,397	4,055
Tax credit/(expense)	6	31,843	(7,789)
Profit/(loss) for the year		37,240	(3,734)

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: 1143820

	Notes	2019 £	2018 £
Assets			
Trade and other receivables	10	**828,742**	890,794
Current tax assets		**311,228**	—
Deferred tax assets	7	**1,521,082**	1,800,467
Total assets		**2,661,052**	2,691,261
Liabilities and equity			
Liabilities			
Current tax liabilities		**—**	67,449
Total liabilities		**—**	67,449
Equity			
Called up share capital	12	**2**	2
Retained earnings		**2,661,050**	2,623,810
Total equity		**2,661,052**	2,623,812
Total liabilities and equity		**2,661,052**	2,691,261

The accompanying notes on pages 11 to 19 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

	2019	2018
	£	£
Cash flows from operating activities		
Profit before tax	5,397	4,055
Adjustments for:		
Change in operating assets	366,937	341,702
Tax paid	(67,449)	(63,858)
Net cash generated from operating activities	304,885	281,899
Movements in inter-company funding	(304,885)	(281,899)
Net cash used in financing activities	(304,885)	(281,899)
Net increase in cash and cash equivalents	–	–
Cash and cash equivalents brought forward	–	–
Cash and cash equivalents carried forward	–	–

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

	Called up share capital	Accumulated losses	Total equity
	£	£	£
At 1 Jan 2019	**2**	**2,623,810**	**2,623,812**
Profit for the year	–	37,240	37,240
Total comprehensive income for the year	–	**37,240**	**37,240**
At 31 Dec 2019	**2**	**2,661,050**	**2,661,052**

	Called up share capital	Accumulated losses	Total equity
	£	£	£
At 1 Jan 2018	2	2,627,544	2,627,546
Loss for the year	–	(3,734)	(3,734)
Total comprehensive expense for the year	–	(3,734)	(3,734)
At 31 Dec 2018	2	2,623,810	2,623,812

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 were previously accounted for under IAS 17 'Leases'. Lessees 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 has remained substantially the same as under IAS 17. As the Company is in the position of lessor, adoption has had no significant effect on the results or net assets.

(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) 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 financial statements have been prepared on the historical cost basis.

(d) 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.

(e) Going concern

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

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.

See Note 1.2 (c) for the accounting policy for finance income or charges on finance leases.

(b) 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.

(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 allowance. Trade and other receivables include finance lease receivables.

Finance lease receivables

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.

As a lessor under finance leases, the Company presents the amounts due under the leases, after deduction of unearned charges and any impairment provisions, in Trade and other receivables.

The finance income or charges on finance leases net of rebates and variations are recognised in net interest income over the lease periods so as to give a constant rate of return.

(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 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.

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 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.

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 are generated once a year, reviewed at each reporting date to ensure that they are an appropriate reflection of managements 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.

(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.

Critical accounting estimates and judgements

The recognition of deferred tax assets depends on judgements
Judgements
• Assessing the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies
• In the absence of a history of taxable profits, assessing the expected future profitability and the applicability of tax planning strategies, including corporate reorganisations

(f) 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.

(g) 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 Operating profit

Operating profit is stated after the following items of income:

	2019 £	2018 £
Finance lease income	2,474	3,600

3 Employee compensation and benefits

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

4 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.

5 Auditors' remuneration

Certain expenses including auditor's remuneration have been borne by a fellow group undertaking and are therefore not charged in arriving at profit before taxation. The auditors' remuneration borne on behalf of the Company amounted to £2,100 (2018: £2,000). There were no non-audit fees incurred during the year (2018: nil).

6 Tax

Tax expense

	2019 £	2018 £
Current tax		
UK Corporation tax		
- For this year	(311,228)	67,449
Total current tax	(311,228)	67,449
Deferred tax		
- Origination and reversals of temporary differences	312,254	(66,679)
- Effects of changes in tax rates	(32,869)	7,019
Total deferred tax	279,385	(59,660)
Year ended 31 Dec	(31,843)	7,789

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 £178,951.

Tax reconciliation

	2019		2018	
	£	(%)	£	(%)
Profit before tax	5,397		4,055	
Tax at 19.00% (2018: 19.00%)	1,025	19.0	770	19.0
Impact due to changes in tax rates	(32,868)	(609.0)	7,019	194.7
Year ended 31 Dec	**(31,843)**	**(590.0)**	7,789	213.7

7 Deferred tax

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

	Other temporary differences	
	2019	2018
	£	£
At 1 Jan	1,800,467	1,740,807
Income statement (charge)/credit	(279,385)	59,660
At 31 Dec	**1,521,082**	1,800,467

Other temporary differences arise from leasing transactions and relate principally to accelerated capital allowances and depreciation.

A deferred tax asset of £1,521,082 (2018: £1,800,467) is recognised in respect of leasing transactions temporary differences. The related tax benefit to be realised through the offset of losses with future taxable profits within the Group.

8 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.

9 Fair value of financial instruments not carried at fair value

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 that HSBC can access 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.

For all financial instruments, the fair value is equal to the carrying value in the Balance sheet, except analysed below. The fair value of finance lease receivables is calculated by discounting future minimum lease receivables using appropriate current interest rate.

		Fair values	
		Valuation	
	Carrying amount	Significant unobservable inputs	
		Level 3	Total
	£	£	£
At 31 Dec 2019			
Assets			
Trade and other receivables	**396,285**	**393,686**	**393,686**
At 31 Dec 2018			
Assets			
Trade and other receivables	763,222	744,381	744,381

10 Trade and other receivables

	Notes	2019 £	2018 £
Amounts due from other group undertakings		**432,457**	127,572
Finance lease receivables	11	**396,285**	763,222
At 31 Dec		**828,742**	890,794

11 Finance lease receivables

The Company leases assets to third parties under finance leases. At the end of the lease term, assets may be sold to third parties or leased for further terms. Lessees may participate in any sales proceeds achieved. Lease rentals arising during the lease terms will either be fixed in quantum or be varied to reflect changes in, for example, tax or interest rates. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2019			2018		
	Total future minimum payments £	**Unearned finance income £**	**Present value £**	Total future minimum payments £	Unearned finance income £	Present value £
Lease receivables						
No later than one year	**307,169**	**(12,870)**	**294,299**	392,008	(31,567)	360,441
Later than one year but not later than 5 years	**N/A**	**N/A**	**N/A**	409,004	(6,223)	402,781
– One to two years[1]	**101,835**	**151**	**101,986**	N/A	N/A	N/A
– Two to three years[1]	—	—	—	N/A	N/A	N/A
– Three to four years[1]	—	—	—	N/A	N/A	N/A
–Four to five years[1]	—	—	—	N/A	N/A	N/A
Later than five years	—	—	—	—	—	—
	409,004	**(12,719)**	**396,285**	801,012	(37,790)	763,222
Impairment provisions			—			—
At 31 Dec			**396,285**			763,222

[1] For 2019 additional maturity bandings have been presented as required under IFRS 16, 2018 maturity bandings have not been restated

In 2019, £17,168 (2018: £30,552) was payable as contingent rents and recognised in the income statement.

12 Called up share capital

	2019 Number	£	2018 Number	£
Issued, allotted and fully paid up				
Ordinary shares of £1 each	**2**	**2**	2	2
As at 1 Jan and 31 Dec	**2**	**2**	2	2

13 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.

Impairment allowances in respect of finance lease receivables are calculated as nil. Expected credit losses from amounts due from other group undertakings are considered to be negligible due to their short term nature. Other group undertakings are wholly owned subsidiaries of HSBC Holdings plc and such counterparties have no history of default and have been able to meet their liabilities as they fall due.

	2019		2018	
	Gross carrying/ nominal amount	Allowance/ Provision for ECL[1]	Gross carrying/ nominal amount	Allowance/ Provision for ECL1
	£	£	£	£
Amounts due from other group undertakings	432,457	—	127,572	—
Finance lease receivables	396,285	—	763,222	—
At 31 Dec 2019	**828,742**	—	890,794	—

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 tables 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.

Summary of credit risk by stage distribution and ECL coverage

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

	Gross carrying/nominal			Allowance for ECL			ECL Coverage %		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	£	£	£	£	£	£	%	%	%
Amounts due from other group undertakings	432,457	—	—	—	—	—	—	—	—
Finance lease receivables	396,285	—	—	—	—	—	—	—	—
At 31 Dec 2019	**828,742**	—	—	—	—	—	—	—	—

	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
	£	£	£	£	£	£	%	%	%
Amounts due from other group undertakings	127,572	—	—	—	—	—	—	—	—
Finance lease receivables	763,222	—	—	—	—	—	—	—	—
At 31 Dec 2018	890,794	—	—	—	—	—	—	—	—

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. No finance lease or other receivable is in arrears. No collateral is held in respect of finance lease receivables, although as title to the underlying assets remain with the lessor, these assets would be recoverable in case of default and it is anticipated that the sale proceeds would cover any shortfall in the amounts recovered from the lessee.

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

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		
	£	£	£	£	£	£	£	£
Amounts due from other group undertakings	432,457	—	—	—	—	432,457	—	432,457
Finance lease receivables	396,285	—	—	—	—	396,285	—	396,285
At 31 Dec 2019	**828,742**	—	—	—	—	**828,742**	—	**828,742**

	Gross carrying/notional amount						Allowance provision for ECL	Net
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total		
	£	£	£	£	£	£	£	£
Amounts due from other group undertakings	127,572	—	—	—	—	127,572	—	127,572
Finance lease receivables	763,222	—	—	—	—	763,222	—	763,222
At 31 Dec 2018	890,794	—	—	—	—	890,794	—	890,794

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

The Company's assets net of deferred tax, are funded principally by borrowings from another group undertaking, which acts as a treasury function. This funding has no fixed repayment date and therefore is technically repayable on demand.

Market risk management

Market risk is the risk that movements in market factors including interest rates or foreign exchange rates will impact the Company's income.

Foreign exchange risk

The Company has no foreign exchange risk as all balances and transactions are in sterling.

Interest rate risk

The Company's finance lease are 'interest variable'. This means that contingent rents will be receivable/payable in relation to money variation when there is a change in the interest rate. Such rents are determined by reference to the Company's net cash investment (being net investment less related tax balances) in the finance lease. Interest is charged on amounts due to parent undertakings at a variable rate of interest based on the Bank of England base rate.

Sensitivity analysis

As at 31 December 2019, the Company was exposed to interest rate risk on its finance lease receivables which are based on LIBOR and on its amounts due from other group undertakings which are based on the Bank of England base rate.

For finance lease receivables the effect on future net interest income of an incremental 100 basis points parallel rise or fall in interest rates at the report date (floored to 0%) amounts to an increase of £2,854 (2018: £5,770) or a decrease of £2,294 (2018: £(5,970)).

For amounts due from other group undertakings, the effect on future net interest income of an incremental 100 basis parallel rise or fall in interest rates at the report date (floored to 0%) amounts to increase of £4,325 (2018: £1,276) or a decrease of £3,243 (2018: £957).

14 Related party transactions

Transactions with other related parties

Transactions detailed below include amounts due to/from HSBC Asset Finance (UK) Limited.

	2019		2018	
	Highest balance during the year [1]	Balance at 31 December	Highest balance during the year [1]	Balance at 31 December
	£	£	£	£
Assets				
Trade and other receivables	542,602	432,457	232,312	127,572

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

	2019	2018
	£	£
Income statement		
Interest income	2,923	455

15 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 Asset Finance (UK) Limited. 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's and HSBC Bank plc's consolidated financial statements 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

16 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 Management do not consider there has been any significant impact on the valuation of its assets up to the date of signing the financial statements. However, given the ongoing uncertainty of the full extent of the COVID-19 outbreak on the valuation of the Company's assets, Management will monitor the impact during 2020 and beyond, for any adverse effects on the financial performance and financial position of 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.