HSBC Private Bank (UK) Limited

Registration No: 499482

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

HSBC

HSBC Private Bank (UK) Limited

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Strategic Report

Principal activities

HSBC Private Bank (UK) Limited ('the Entity') is a private company incorporated in England and Wales, United Kingdom. Its trading address is 8 Canada Square, London E14 5HQ.

HSBC Private Bank (UK) Limited is an authorised bank under the Financial Services and Markets Act 2000, authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'). The Entity's principal activity is private banking.

Ring-fenced bank

The UK Financial Services (Banking Reform) Act 2013 and associated secondary legislation and regulatory rules required UK deposit-taking banks with more than £25m of 'core deposits' (broadly from individuals and small to medium-sized businesses) to separate their UK retail banking activities from their other wholesale and investment banking activities by 1 January 2019. The resulting UK ring fenced bank entities need to be legally distinct, operationally separate and economically independent from the non-ring-fenced bank entities.

The Entity is a subsidiary of HSBC UK Bank plc ('HSBC UK'), HSBC's UK ring fenced bank, which also includes Retail Banking and Wealth Management ('RBWM') and Commercial Banking ('CMB'). These businesses were transferred from HSBC Bank plc on 1 July 2018, following the court approval of the ring-fenced transfer scheme to meet the regulatory ring-fencing requirements in accordance with the Financial Services (Banking Reform) Act 2013 and related legislation.

The primary means of transferring the Entity's qualifying customers to the ring fenced bank was through a court approved ring-fencing transfer scheme ('RFTS') as provided for in Part VII, section 106 of the Financial Services and Market Act 2000 (as amended) ('FSMA'). In addition to these transfers, certain items were transferred through other legal arrangements.

Divisionalisation

Supporting the Group's strategy to streamline legal structures, the Entity transferred its business into HSBC UK, 1 January 2020. Such transfer is effected pursuant to a Banking Business Transfer Scheme under Part VII of the UK Financial Services and Markets Act 2000 (a Part VII Scheme). A Part VII Scheme is a court approved business transfer scheme. The Entity's business was transferred to HSBC UK by operation of law pursuant to an order of the English High Court and subject to a scheme document, which sets out the full terms of the transfer ('Divisionalisation').

For the purposes of the laws of jurisdictions within the United Kingdom, the Entity's assets, rights, obligations and liabilities (contractual or otherwise) were transferred so as to substitute HSBC UK for the Entity. As a result, counterparty consent was not required to effect the transfer of the Entity's business as a matter of the laws of the jurisdictions within the United Kingdom. In the case of arrangements which are not governed by laws of the jurisdictions within the United Kingdom, further steps will be necessary to transfer such arrangement, such as contractual assignments or novations. This will depend on the governing law involved, as certain jurisdictions do not recognise the enforceability of a Part VII Scheme.

The transfer of the assets and liabilities of the Entity to HSBC UK was performed at the book value on the date of transfer.

Post divisionalisation, the Entity is being maintained with sufficient capital and resources to operate for the foreseeable future. The present intention is for the entity to continue operating until it becomes possible to transfer out certain frozen accounts which are currently subject to legal sanction preventing any dealing in relation to them.

Review of the Entity's business

As part of the HSBC Group, the Entity leverages the group's network of businesses and countries. In 2019, 98% of plan was achieved in respect of referrals of existing HSBC Group clients

The Entity worked closely with its clients to provide solutions to grow, manage and preserve wealth. Its products and services include:

- Discretionary and brokerage service;
- Credit lending;
- Deposit products;
- Foreign exchange;
- Investment management and advice (both advisory and discretionary services); and
- Private wealth solutions and planning, including trust and estate planning.

The Entity no longer contains asset management capabilities, as these were transferred to HSBC Asset Management.

During 2019, the Entity continued to make satisfactory progress in delivering its strategy to:

- deliver an enhanced banking and wealth management proposition to clients to help them grow and protect their wealth;
- be the private bank of choice for HSBC Group's most valuable clients and connect them to the best of HSBC Group's capabilities;
- deliver increasing profits and capital efficient returns to the Group; and
- focus on being the bank of choice for business owners and entrepreneurs.

Performance

The Entity's results for the year under review are as detailed in the income statement shown on page 13 of these financial statements.

The profit for 2019 is £9,368,000, 70% lower than in 2018 due to higher loan impairment charges and other credit risk provisions, ('ECLs') related to legacy portfolio, and higher operating expenses, specifically investment in technology.

Revenue in 2019 increased by £5,522,000 (4%) mainly due to client revenue relating to net fee income which was £7,168,000 higher than 2018. This was driven by investment activity and new product launches, including HarbourVest, Vision Private Equity and Fixed Maturity Funds, partially offset by lower net interest income due to low interest rates, the depressed UK property markets and margin compression.

Operating expenses increased by £21,482,000 (19%) due to technology spend in respect of system updates, digital and platform replacement.

Loan impairments charges and other credit risk provisions were £14,162,000 in 2019 versus £605,000 in 2018. The significant increase experienced in 2019 was due to the updates to the macro-economic assumptions and the actual client default rates, reflecting the UK government and market uncertainty. In 2019, there was also a single significant loan impairment relating to a legacy lending relationship.

Business position

Assets increased by 11% from £6,287,425,000 as at 31 December 2018 to £6,959,850,000 as at 31 December 2019. This was due to an increase in money market placement funds with HSBC UK Bank Plc. Liabilities also increased between December 2018 and 2019, from £5,763,357,000 to £6,367,522,000 mainly due to an 11% increase in customer accounts, driven by a deposit campaign launched in Q1 2019.

Total equity of the Entity decreased by £21,740,000 to £592,328,000 at 31 December 2019 (31 December 2018: £614,068,000), mainly due to a dividend payment.

Total Assets under management increased to £10,838,566,963 at 31 December 2019 (31 December 2018 : £9,284,063,753). This increase is primarily driven by an increase in client investment activity, the deposit campaign and the Entity's strategy to build a more balanced portfolio of wealth management products.

Key performance indicators

The Directors use Key Performance Indicators ('KPIs') to monitor the business. As well as the income statement and the balance sheet, these indicators include measures to identify the returns on different categories of assets and the risks to which the Entity is exposed.

Financial KPIs

	Target	**2019**	2018
Profit before tax (£'000)	**39,263**	**12,922**	42,439
Pre-tax return on risk-weighted assets (%)	**2**	**1**	2
Common equity tier 1 (%)	**25**	**31**	28*
Cost efficiency ratio (%)	**70**	**83**	73

* Please refer to Report of Directors for more details.

Profit before tax of £12,922,000 in 2019 was 70% lower than in 2018 and 67% lower than target. The significant decrease in profitability has been driven by higher loan impairment charges and other credit risk provisions and higher operating expenses specifically investment in technology.

Pre-tax return on average risk-weighted assets is measured as pre-tax profit divided by average risk weighted assets. The decrease from 2% in 2018 to 1% in 2019 was driven by lower profitability, as risk-weighted assets remained broadly flat, consistent with the loans and advances to customers.

Capital has remained very stable through the period. The Entity's capital comprises Common Equity Tier 1 (CET1) only, which is the highest quality form of capital, consisting of shareholders' equity and non-controlling interest less regulatory deductions and adjustments. The Entity increased its capital base to 31% in 2019. The Entity's approach to managing its capital is to ensure it exceeds current regulatory requirements and has sufficient capital to meet future expected regulatory changes and support the development of its business.

Cost efficiency is measured as total operating expenses divided by operating income before loan impairment charges and other credit risk provisions. Performance has worsened year on year due to investment in technology, including platform replacement, system upgrades and digital.

Principal risks and uncertainties

The risks and uncertainties detailed below relates to 2019 but are no longer applicable to the Entity due to substantially all of Entity's assets and liabilities being transferred to HSBC UK on divisionalisation on 1 January 2020.

The principal financial risks and uncertainties facing the Entity are credit risk, market risk and liquidity risk. These risks, the exposure to such risks and management of risk are set out in Note 28 of the financial statements.

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

Operational risk is relevant to every aspect of the Entity's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the definition of operational risk. The objective of the Entity's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Entity's risk appetite, as proposed by the Risk Management Committee set by the Board.

In July 2015 and November 2015 respectively, two actions were brought by individuals against the Entity in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty to the claimants, in connection with their participation in certain Ingenious film finance schemes. These actions are ongoing.

In December 2018, a separate action was brought against the Entity in the High Court of England and Wales by multiple claimants seeking damages for alleged unlawful means conspiracy and dishonest assistance in connection with lending provided by the Entity to third parties in respect of certain Ingenious film finance schemes in which the claimants participated. In June 2019, a similar claim was issued against the Entity in the High Court of England and Wales by additional claimants. These actions are ongoing.

In February and October 2019 respectively, the Entity received two letters before claim from two largely separate groups of investors in Eclipse film finance schemes, each of which asserted various claims against the Entity in connection with its role in facilitating the design, promotion and operation of such schemes.

These matters are at an early stage.

It is possible that additional actions or investigations will be initiated against the Entity as a result of its historic involvement in the provision of certain film finance related services.

Based on the facts currently known, it is not practicable to estimate the resolution of these matters, including the timing or possible aggregate impact on the Entity, which could be significant.

Financial institutions remain under considerable scrutiny regarding conduct of business, particularly in relation to fair outcomes for customers and orderly and transparent operations in financial markets. Regulators, prosecutors, the media and the public all have heightened expectations as to the behaviour and conduct of financial institutions, and any shortcomings or failure to demonstrate adequate controls are in place to mitigate such risks could result in regulatory sanctions, fines or an increase in civil litigation.

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions may significantly alter the competitive landscape.

The Entity maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

Like other public and private organisations, the Entity continues to be a target of cyber-attacks, which in some cases, the intention of these attacks are to disrupt services including the availability of the Entity's external facing websites, compromise organisations and customer information or expose security weaknesses. Management of cyber risks is coming under increased regulatory scrutiny and in response to the threat and that scrutiny the group has established a Resilience Risk Function from which the entity receives a direct oversight from. Throughout the year the entity the entity has received the increasing benefit of programmes that are managed group wide as well as implementing numerous local initiatives in further securing business and customer data.

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

Process of UK withdrawal from the European Union

The UK left the European Union ("EU") on 31 January 2020 and has entered into a transition period until 31 December 2020. Beyond that date, there is currently no certainty on what the future relationship between the UK and the EU will be. This creates market volatility and economic risk, particularly in the UK. For more information, please refer to page 51.

Section 172 Statement

As set out in section 172 of the Companies Act 2006, the Directors must act in good faith to promote the success of the company for the benefit of its members as a whole. In performing their duty, under the Act, the Board is required to have full regard to, amongst other things: the interests of our employees; the impact of our operations on the community and environment; and the need to foster the Entity's business relationships with key stakeholders in order to maintain a reputation for high standards of business conduct and enhance the sustainable long term success of the business.

The Directors are supported in the discharge of their duties by:

- An induction programme and ongoing training to provide an understanding of our business and financial performance and prospects.
- Management who present to Board and Committee meetings ensure that proposals contain all information relevant to determine the action that would most likely promote the success of the Entity; and
- Carefully planned agendas for Board and Committee meetings, which provide sufficient time for the consideration and discussion of key matters.

Stakeholder Engagement

Building strong relationships with our stakeholders will help achieve our ambition in line with our purpose and values and promote the long term success of the Entity. Our key stakeholders we consider in this regard are the people who work for us, bank with us, own us supply us and regulate us.

Employees

We have a structured communications approach that uses leadership communications, campaigns and a regular flow of news to help colleagues to serve our customers better, make sense of our strategy, focus on our commercial priorities and provide clarity on issues. We build a sense of pride and purpose by recognising our colleagues' contributions to our business and celebrating our achievements.

Understanding how our colleagues feel is vital. It helps us ensure that we are giving them the right support to fulfil their potential and do the right thing for our customers. Colleagues are asked for feedback and encouraged to speak up. We continue to test the views of a representative sample of our people on a range of topics via our employee survey, 'Snapshot', which runs twice yearly. Snapshot results are presented to the Executive Committee, the Board, and other relevant committees of the functions. This ensures the attitudes and sentiments of our people inform decision-making at all levels of the business and action can then be taken to tackle areas of concern. Additionally, we also participate in the external Banking Standards Board Annual Assessment, comprising an employee survey and focus groups where our people can also have their say.

Feedback from 'Exchanges' is also an important way of listening to our people; Exchange sessions are safe forum meetings, without agendas, attended by colleagues from across the organisation. They can discuss what matters to them, share views and suggest ideas, while managers and leaders attend to listen. Our insight shows us that where our people participate in Exchange they are generally more positive about their experience with us. They feel better able to speak up, are more trusting of managers and leaders, and report higher levels of wellbeing. We provide the opportunity for people to take part in an Exchange meeting each quarter.

The Chief Executive Officer is actively involved in the engagement of employees through monthly open forums and bi-annual all employee web-casts to keep the workforce up-to-date on business developments and answer submitted questions. The Board receives regular updates from the Chief Executive Officer on employee matters, including feedback received through our regular external and internal employee surveys such as the Banking Standards Board and Snapshot. During the year, Directors have also had opportunities to directly engage with local management and other colleagues.

Suppliers

The ethical and environmental code of conduct for suppliers of goods and services, which can be found on the HSBC public website, sets out how we work with our suppliers on ethical and environmental performance. The code of conduct for suppliers of goods and services raises conduct requirements related to the economic, environmental and social impacts associated with the supply of goods or services.

Customers

Ensuring customer feedback is actioned and communicated back to our customers has also been a big priority in 2019. Dedicated members of staff have been focussed on contacting customers who either flag issues through our feedback mechanisms to ensure a resolution is found, or who are promoters of the business to thank them for their feedback and to learn from these positive experiences.

HSBC UK

A strong relationship is maintained with HSBC UK through cross-directorships of the Chairman of the Board and one of the Non-Executive Directors. Matters to escalate to HBSC UK has been added as a standing agenda item to ensure that all key issues are reported to our sole shareholder in a timely manner. In addition to this, the CEO is a member of the HSBC UK Executive team to ensure key business decisions are aligned with the HSBC UK strategy.

As a wholly owned subsidiary, we also benefit from certain engagement practices which take place at a HSBC Group level which allows us to have more efficient and effective engagement practices. For details on some of the engagement that takes place with stakeholders at a Group level, please see HSBC Holdings plc 2019 Annual Report and Accounts and HSBC Holdings plc Environmental, Social and Governance Update.

Consideration of Stakeholders in Principal Decisions

The Board delegates authority for day-to-day management of the Entity to the executive team and engages management in setting, approving and overseeing execution of the business strategy and related policies. Management conduct much of the Entity's primary engagement with both internal and external stakeholders, with the outputs of this engagement activity providing critical insight and perspective for the Board when taking decisions or challenging management in respect of decisions made on behalf of the Entity.

Depending on the nature of the issue in question the relevance of each stakeholder group may differ. Board decisions will not necessarily result in a positive outcome for all of our stakeholders, but by considering our purpose, vision and values, and having due regard for stakeholder relationships, the Board aims to ensure that its decisions promote the long term success of the Entity.

An example of a principal decision taken by the Entity during the year is the approval of the transfer of nearly all of the Entity's business to HSBC UK. Consideration was given to the benefits and risks of the proposed transfer, including any additional actual or contingent liabilities which could alter the Entity's solvency, capital or liquidity positions; the impact on relevant stakeholders, including customers and HSBC UK as the Entity's shareholder; and regulatory implications.

On behalf of the Board

Charles Boulton
Director
10 March 2020

8 Canada Square
London E14 5HQ

Report of the Directors

Directors

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

Name	Appointed
C Boulton	15 May 2018
J Coyle	12 December 2018
D W Lister	12 December 2018
J F Trueman	01 April 2013
D Stewart	02 June 2016

The Articles of Association of the Entity provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Entity 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

A dividend was declared and paid by the Directors during the year ended 31 December 2019 for £31,500,000 (2018: £18,000,000).

Changes in Share Capital

In December 2019, directors passed a special resolution to reduce the share capital by cancelling and extinguishing all shares except one ordinary share of GBP10. The amount by which the share capital and share premium were reduced increased the retained reserves. Please refer to Statement of changes in equity on Page 16 for more details.

Significant events since the end of the financial year

Details on significant events since the end of financial year can be found in Note 33 to the financial statements.

Future developments

We do not expect any significant future developments except noted above under significant events since the end of the financial year.

Going concern basis

The financial statements are prepared on a going concern basis, as whilst the Entity transferred its business at book value to its parent undertaking, HSBC UK Bank plc on Divisionalisation, the Directors are satisfied that the Entity has retained sufficient capital and resources to continue operating for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

The financial statements will continue to be prepared on a going concern basis, until the decision has been taken to liquidate the Entity. The present intention is for that to happen when it becomes possible to transfer out certain frozen accounts which are currently subject to legal sanction preventing any dealing in relation to them.

Financial risk management

The financial risk management objectives and policies of the Entity, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in Note 28 of the Notes on the financial statements.

Employment of people with a disability

The Entity is committed to providing equal opportunities to employees. The employment of people with a disability is included in this commitment. The recruitment, training, career development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during employment with us, efforts are made to continue their employment and, if necessary, appropriate training, reasonable equipment and facilities are provided.

Employment policy

The Entity continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Entity's performance through management channels, oral communication and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. The involvement of employees in the performance of the Entity is further encouraged through share purchase schemes helping to align the interest of employees with the creation of shareholder value.

Capital management [Audited]

The Entity defines capital as total shareholders' equity. It is the Entity'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 Entity's approach to capital management during the year.

The Entity's objective in managing the group's capital is to maintain appropriate levels of capital to support our business strategy and meet regulatory and stress testing related requirements. Throughout 2019, we complied with the PRAs regulatory capital adequacy requirements, including those relating to stress testing.

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make firms more transparent by requiring them to publish specific details of their risks and capital, and how these are managed. Separate Pillar 3 disclosures are not required for the Entity as the Entity is included in the consolidated Pillar 3 disclosures of HSBC UK Bank plc. These disclosures are published as a separate document on www.hsbc.com.

The PRA is the supervisor of the bank and lead supervisor of the group. The PRA sets capital requirements and receives information on the capital adequacy of the bank and the group. Our policy and practice in capital measurement and allocation at the group level is underpinned by the Capital Requirements Directive ('CRD IV') rules and any national discretions applied by the PRA. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer CCB, Countercyclical capital buffer, and other systemic buffers such as the Globally/Other Systemically Important Institutions buffer. CRD IV legislation implemented Basel III in the EU, and the 'PRA Rulebook' for CRR Firms transposed the various national discretions under the CRD IV legislation into UK requirements. The Bank of England announced Systemic Risk Buffer rates for the UK Ring-Fenced banks applicable from 1 August 2019. These are set as a percentage of the risk-weighted assets, with HSBC UK subject to 1% SRB of the total RWAs at the sub-consolidated level. These rates would be refreshed annually.

Regulatory capital

The Entity's capital base is divided into two main categories namely common equity tier 1 and tier 2, depending on the degree of permanency and loss absorbency exhibited.

- Common equity tier 1 ('CET 1') capital is the highest quality form of capital, comprising shareholders' equity and related non-*controlling interests (subject to limits). Under CRD IV, various capital deductions and regulatory adjustments are made against* these items; these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability, negative amounts resulting from the calculation of expected loss amounts under internal ratings based ('IRB') approach.
- Tier 2 capital comprises eligible capital instruments and any related share premium and other qualifying tier 2 capital instruments issued by subsidiaries, subject to limits. Holdings of tier 2 capital instruments of financial sector entities are deducted from our tier 2 capital. Currently, the Entity has no tier 2 capital.

Calculation of actual capital

	2019 £'000	2018 £'000
Tier 1 capital		
Shareholders' equity	**592,328**	614,068
Regulatory adjustments to the accounting basis		
Deductions		
- Excess expected losses over impairment allowances	**(9,698)**	(19,237)
- Adjustment for intangible assets	**(28,444)**	(20,800)
Common equity tier 1 capital	**554,186**	574,031
Tier 1 capital	**554,186**	574,031
Total regulatory capital	**554,186**	574,031
Risk-weighted assets [unaudited]		
Credit and counterparty risk	**1,547,552**	1,708,927
Market risk	**44**	109
Operational risk	**259,232**	320,869
Total	**1,806,828**	2,029,905
Capital ratios (%)		
Common equity tier 1 ratio	**31**	28
Tier 1 ratio	**31**	28
Total capital ratio	**31**	28

Re-presentation of regulatory capital

The capital position of the entity for the year ended 31 December 2018 has been represented to deduct intangible assets from Tier 1 capital. As a result, there has been a decrease in total regulatory capital of £21m and a decrease in Total capital ratio of 1% for 31 December 2018. The entity was still compliant on the capital ratio despite the reduction.

Independent auditors

PricewaterhouseCoopers LLP ('PwC') is external auditor to the Entity. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the Entity's auditor.

Directors' responsibility statement

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the bank's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information The Directors are responsible for preparing the *Annual Report and Financial Statements*, in accordance with applicable law and regulations.

Company law requires the Directors to prepare a Strategic Report, a Report of the Directors and Financial Statements for each financial year. The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU').and have elected to prepare the bank's financial statements on the same basis.

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 Entity and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is not appropriate. Since the Directors are satisfied that the group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the bank and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have responsibility for the maintenance and integrity of the Annual Report and Accounts 2019 as they appear on the bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, the names of whom are set out in the Directors' Report on page 5 of the Annual Report and Accounts 2019, confirm to the best of their knowledge:

Disclosure of Information to Auditors

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

Charles Boulton
Director
10 March 2020

8 Canada Square
London E14 5HQ

Independent auditors' report to the members of HSBC Private Bank (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Private Bank (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 at 31 December 2019; the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

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

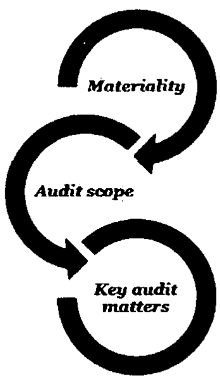
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



Overall materiality: £5.54 million (2018: £5.85 million), based on 1% of regulatory capital.

HSBC Private Bank (UK) Limited is a member of the HSBC Group, the ultimate parent company of which is HSBC Holdings plc.
HSBC Private Bank (UK) Limited is owned by HSBC UK Bank plc.

Impairment of loans and advances to customers
Litigation provisions relating to film finance transactions
Information Technology ('IT') access management

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations include, but not limited to, the Financial Conduct Authority regulations, the Prudential Regulation Authority's regulations, Pensions legislation and UK tax legislation. We considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate manual journal entries, and management bias in accounting estimates. Audit procedures performed by the engagement team included: review of the financial statement disclosures to underlying supporting documentation; review of correspondence with the regulators; review of correspondence with legal advisors; enquiries of management and review of internal audit reports in so far as they related to the financial statements; challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of loans and advances to customers (see related key audit matter below); identifying and testing manual journal entries, in particular any manual journal entries posted with unusual account combinations or posted by senior management.

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

Key audit matters

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

Key audit matter	**How our audit addressed the key audit matter**
Impairment of Loans and Advances to Customers The Expected Credit Loss ('ECL') provision for loans and advances to customers has a significant number of data inputs. In addition to the data inputs a number of key judgements are used to estimate the ECL provision, in particular the severity and likelihood of alternative downside economic scenarios that form part of the forward economic guidance, the determination of customer credit ratings and probabilities of default and loss rates, and the estimation of specific impairments for stage 3 exposures. Whilst the credit environment has remained largely benign as a result of low interest rates and low unemployment, broader economic risks such as the impact of the UK departure from the EU remain which increase the estimation uncertainty in the ECL. Refer to notes 1 and 28 to the financial statements for the relevant disclosures.	*Controls were tested over:* The annual loan review process, the compilation and review of the credit watch list, approval of external collateral valuation vendors, approval of significant individual impairments; Input of critical data, into source system, and the flow and transformation of data between source systems to the impairment calculation engine. Review and assessment of key assumptions and judgements, including calculation methodologies and adjustments or overlays. Review and challenge forums to assess ECL output and approval of post model adjustments. Review and approval of the key inputs, assumptions and discounted cash-flows that support significant individual impairments. *Further substantive procedures included:* Testing a sample of loans as at year end using a risk-based sampling methodology directed at those loans which we consider to represent the highest credit risk; Assessing the appropriateness of changes to the modelling policy and methodology used for material portfolios, against the requirements of the standard. Assessing refreshed analysis on global judgements and simplifications. Testing of the critical data used in the year end ECL calculation. Utilised our credit modelling specialist to perform risk based substantive testing of models that were updated during the year including independently rebuilding models for certain estimates. Review of the appropriateness and sufficiency of the ECL disclosure in the financial statements.

Litigation Provisions Relating to Film Finance Transactions

The determination of when and how to recognise litigation provisions is highly judgemental and the exposure of the banking industry to claims is high.

Further development around open cases have taken place this year. We have determined this remains an area of audit focus.

Refer to note 29 to the financial statements for the relevant disclosure.

Our audit procedures in relation to film finance transactions litigation included:

Understanding and testing of controls around identification and assessment of current legal and regulatory related provisions.

Testing completeness of litigation and regulatory claims through:

- Inspecting regulatory correspondence.
- Reviewing a sample of legal expenses to test completeness of litigation.
- Inspecting minutes of key governance meetings including Board minutes, Audit & Risk Committee minutes.

For material open legal cases, we examined case status, met the entity internal counsel and in certain instances obtained the entity external legal counsel confirmations of the conclusions reached by management to understand the legal position and the basis of material risk positions.

Review of appropriateness and sufficiency of the legal proceedings disclosures in the financial statements.

IT Access Management

All banks are highly dependent on technology due to the significant number of transactions that are processed daily. The audit approach relies extensively on automated controls and therefore on the effectiveness of controls over IT systems.

In previous years, we identified and reported that controls over access to applications, operating systems and data in the financial reporting process required improvements. Access management controls are critical to ensure that changes to applications and underlying data are made in an appropriate manner. Appropriate access controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data.

Management implemented several remediation activities that contributed to reducing the risk over access management in the financial reporting process. These included implementation of preventative and detective controls across critical applications and infrastructure, with the aim of reducing risks presented by excessive privileged access to IT infrastructure.

Our audit procedures in relation to IT Access management included:

Access rights were tested over applications, operating systems and databases relied upon for financial reporting. Specifically, the audit tested that:

- New access requests for joiners were properly reviewed and authorised;
- User access rights were removed on a timely basis when an individual left or moved role;
- Access rights to applications, operating systems and databases were periodically monitored for appropriateness; and
- Highly privileged access is restricted to appropriate personnel.

As a consequence of deficiencies identified, a range of other procedures were performed:

- Where inappropriate access was identified, we understood the nature of the access and obtained additional evidence on the appropriateness of the activities performed; and
- A list of users' access permissions was obtained and manually compared to other access lists where segregation of duties was deemed to be of higher risk, for example, users having access to both core banking and payments systems.

How we tailored the audit scope

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

The Entity comprises one legal entity in the UK; in establishing the overall approach to the audit a key element of our audit involved assessing controls and processes to be tested in other HSBC Group and shared service centre locations. The HSBC Group engagement team performed audit procedures for our purposes, including the revaluation of financial instruments and testing of IT applications under our instruction.

Materiality

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

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

Overall materiality	£5.54 million (2018: £5.85 million).
How we determined it	1% of regulatory capital
Rationale for benchmark applied	Considering the principal users of the financial statements, and that the entity is a wholly owned subsidiary, we believe that capital resources is the appropriate benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.27 million (2018: £0.29 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

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. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 Directors' Responsibility Statement set out on page 7, 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.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors on 16 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2015 to 31 December 2019.

Carl Sizer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March, 2020

Financial statements

Income statement for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Interest income		**151,875**	140,742
Interest expense		**(45,272)**	(27,068)
Net interest income	2	**106,603**	113,674
Fee and commission income		**45,378**	40,719
Fee and commission expense		**(11,568)**	(14,077)
Net fee income	2	**33,810**	26,642
Net trading income		**3,226**	3,049
Other operating income		**15,142**	9,894
Net operating income before loan impairment charges and other credit risk provision		**158,781**	153,259
Loan impairment charges and other credit risk provisions	2	**(14,162)**	(605)
Net operating income		**144,619**	152,654
Employee compensation and benefits	3	**(46,399)**	(42,751)
General and administrative expenses		**(79,579)**	(64,297)
Amortisation and impairment of intangible assets	19	**(5,719)**	(3,167)
Total operating expenses		**(131,697)**	(110,215)
Operating profit		**12,922**	42,439
Profit before tax		**12,922**	42,439
Tax expense	7	**(3,554)**	(10,932)
Profit for the year		**9,368**	31,507

The Entity's business has become a *discontinued operation upon divisionalisation as the Entity has transferred substantially all its* business into HSBC UK, 1 January 2020, at book value. The entity has retained £15m of the loans and advances to banks, £10m of capital, Tax Liabilities of £5m and £0.07m portion of customer accounts to allow it to operate for the foreseeable future; details are disclosed in note 1(g) in Notes to the financial statements section.

Statement of comprehensive income for the year ended 31 December 2019

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: 499482

	Notes	2019 £'000	2018 £'000
Assets			
Cash and balances at central banks		**10,502**	9,490
Derivatives	*14*	**3,437**	5,248
Loans and advances to banks	*16*	**2,592,450**	1,967,797
Loans and advances to customers	*17*	**4,292,551**	4,258,627
Prepayments and accrued income		**16,504**	15,817
Other assets	*20*	**13,493**	6,894
Property, plant and equipment	*18*	**388**	330
Intangible assets	*19*	**28,811**	21,084
Deferred tax assets	*8*	**1,714**	2,138
Total assets		**6,959,850**	6,287,425
Liabilities and equity			
Liabilities			
Customer accounts	*21*	**5,934,496**	5,338,158
Derivatives	*14*	**3,557**	5,464
Accruals, deferred income and other liabilities	*22*	**424,471**	318,786
Current tax liabilities	*7*	**3,328**	10,599
Provisions	*23*	**1,670**	350
Total liabilities		**6,367,522**	5,673,357
Equity			
Called up share capital	*26*	**—**	176,910
Share premium account		**—**	404,636
Retained earnings		**592,328**	32,522
Total equity		**592,328**	614,068
Total liabilities and equity		**6,959,850**	6,287,425

Re-presentation of balance sheet

The 'Other asset' line and Other liabilities component of 'Accruals, deferred income and other liabilities' line in the balance sheet of the entity, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is a decrease in Other Assets of £117m and a decrease in Accruals, deferred income and other Liabilities of £117m. There is no effect on equity of the entity.

The Entity's business has become a discontinued operation upon divisionalisation as the Entity has transferred its business into HSBC UK, 1 January 2020, at book value. The entity has retained £15m of the loans and advances to banks, £10m of capital, Tax Liabilities of £5m and £0.07m portion of customer accounts to allow it to operate for the foreseeable future; details are disclosed in note 1(g) in Notes to the financial statements section.

The accompanying notes on pages 17 to 52 form an integral part of these financial statements.

These financial statements were approved by the Board of Director on 10 March 2020 and signed on its behalf by:

Charles Boulton
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		**12,922**	42,439
Adjustments for:			
Non-cash items included in profit before tax	10	**21,858**	1,912
Change in operating assets	10	**111,282**	1,819,497
Change in operating liabilities	10	**758,739**	(785,273)
Elimination of exchange differences		**(3,101)**	(3,001)
Tax paid		**(10,406)**	(6,956)
Net cash generated from operating activities		**891,294**	1,068,618
Cash flows from financing activities			
Dividends paid		**(31,500)**	(18,000)
Net cash used in financing activities		**(31,500)**	(18,000)
Net increase in cash and cash equivalents		**859,794**	1,050,618
Cash and cash equivalents brought forward		**1,782,210**	733,440
Effect of exchange rate changes on cash and cash equivalents		**(39,052)**	(1,848)
Cash and cash equivalents carried forward	10	**2,602,952**	1,782,210

Re-presentation of Cash flows statement

The change in operating assets and change in operating liabilities lines in the cash flows statement, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an increase in change in operating assets of £117m and an increase in change in operating liabilities of £117m.

The Entity's business has become a discontinued operation upon divisionalisation as the Entity has transferred its business into HSBC UK, 1 January 2020, at book value. The entity has retained £15m of the loans and advances to banks, £10m of capital, Tax Liabilities of £5m and £0.07m portion of customer accounts to allow it to operate for the foreseeable future; details are disclosed in note 1(g) in Notes to the financial statements section.

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

	Called up share capital	Share Premium	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 Jan 2019	**176,910**	**404,636**	**32,522**	**614,068**
Total comprehensive income for the year	**–**	**–**	**9,368**	**9,368**
Dividends to shareholders	**–**	**–**	**(31,500)**	**(31,500)**
Net impact of equity-settled share-based payments	**–**	**–**	**394**	**394**
Transfer from Share Premium to Retained earnings	**–**	**(404,636)**	**404,636**	**–**
Cancellation of share capital	**(176,910)**	**–**	**176,910**	**–**
Other movements	**–**	**–**	**(2)**	**(2)**
At 31 Dec 2019	**–**	**–**	**592,328**	**592,328**

As at 31 Dec 2017	176,910	404,636	22,211	603,757
Impact on transition to IFRS 9	–	–	(3,679)	(3,679)
At 1 Jan 2018	176,910	404,636	18,532	600,078
Total comprehensive income for the year	–	–	31,507	31,507
Dividends to shareholders	–	–	(18,000)	(18,000)
Net impact of equity-settled share-based payments	–	–	544	544
Other movements	–	–	(61)	(61)
At 31 Dec 2018	176,910	404,636	32,522	614,068

Equity is fully attributable to equity shareholders of HSBC Private Bank (UK) Limited.

Notes to the financial statements

1 Basis of preparation and significant accounting policies

The financial statements of the Entity 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 Entity 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').

Standards adopted during the year ended 31 December 2019

IFRS 16 'Leases'

On 1 January 2019, Entity adopted the requirements of IFRS 16 retrospectively. There is no material impact of adoption of IFRS16 on Entity's numbers as the Entity has no leases which qualify as a lease under IFRS16.

Amendment to IAS 12 'Income Taxes'

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that a Entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment was applied on 1 January 2019 and had no material impact.

(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 Entity expects they will have an insignificant effect, when adopted, on the financial statements of the Entity.

Major new IFRSs

IFRS 17 'Insurance Contracts'

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

(c) Foreign currencies

The functional currency of the Entity is Sterling pounds, which is also the presentational currency of the financial statements of the Entity.

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

(d) Presentation of information

The financial statements present information about the Entity as an individual undertaking and not about its group.

(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. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

Directors' selection of the Entity'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 whilst the Entity transferred its business at book value to its parent undertaking, HSBC UK Bank plc on Divisionalisation, the Directors are satisfied that the Entity has retained sufficient capital and resources to continue operating for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. The financial statements will continue to be prepared on a going concern basis, until the decision has been taken to liquidate the Entity. The present intention is for that to happen when it becomes possible to transfer out certain frozen accounts which are currently subject to legal sanction preventing any dealing in relation to them;which is not currently expected to occur within 12 months from the date of signing the financial statements.

(g) Discontinued operations

Supporting the Group's strategy to streamline legal structures, the Entity transferred its business into HSBC UK, 1 January 2020. Such transfer is effected pursuant to a Banking Business Transfer Scheme under Part VII of the UK Financial Services and Markets Act 2000 (a Part VII Scheme). A Part VII Scheme is a court approved business transfer scheme. The Entity's business was transferred to HSBC UK by operation of law pursuant to an order of the English High Court and subject to a scheme document, which sets out the full terms of the transfer.

For the purposes of the laws of jurisdictions within the United Kingdom, the Entity's assets, rights, obligations and liabilities (contractual or otherwise) were transferred to HSBC UK for the Entity The transfer of the assets and liabilities of the Entity to HSBC UK was performed at the book value on the date of transfer. Post divisionalisation, the Entity is being maintained with sufficient capital and resources to operate for the foreseeable future. The present intention is for the entity to continue operating until it becomes possible to transfer out certain frozen accounts which are currently subject to legal sanction preventing any dealing in relation to them.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

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

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

Non-interest income and expense

Fee income is earned from a diverse range of services provided by the Entity to its customers. Fee income is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating a transaction, such as the acquisition of shares, for a third party); and
- Income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management services).

Fees and commissions related to the acquisition of loans or securities are included in determination of their effective interest rate. Management advisory and service fees are recognised based on the applicable service contracts. Fees related to provision of services are recognised over the period as the service is provided. Fees such as underwriting fees or brokerage fees that are related to provision of specific transaction type services are recognised when the service has been completed.

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends.

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

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

(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 most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The Entity accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets and initial recognition includes any directly attributable transaction costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

The Entity may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Entity intends to hold the loan, a provision on the loan commitment is only recorded where it is probable that the Entity will incur a loss.

(d) Financial instruments designated at fair value through profit or loss

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

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

Designated financial assets are recognised when the Entity enters into contracts with counterparties, which is generally on trade date, and are derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Entity enters into contracts with counterparties, which is generally on settlement date, and are derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis', including related derivatives, measured at fair value through profit or loss.

Under the above criterion, the main classes of financial instruments designated by the Entity are:

- Long-term debt issues: The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which the Entity does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.

(e) Derivatives

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

Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The Entity uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(f) Impairment of amortised cost financial assets

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

Credit-impaired (stage 3)

The Entity 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 loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

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.

Renegotiation

Loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to *significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence* to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

The operational process is for the interest to be passed to the current account. Loans will therefore not report as being past due. Interest is passed quarterly rather than monthly, hence days past due count cannot be calculated until it becomes impaired.

Loan modifications that are not credit-impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Entity's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

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. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. 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. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds, as set out in the table below::

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch
8.3	0 notch

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected, and higher than what would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

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.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) 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. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans 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, 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.

HSBC leverages the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements set out in the following table:

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel II models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale 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 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 HSBC is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our 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.

The 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 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 approach to Forward Economic Guidance.

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 assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions as part of the 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.

Critical accounting estimates and judgements

The calculation of the Group's ECL under IFRS 9 requires the entity to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk • Determining the lifetime and point of initial recognition of overdrafts and credit cards • Selecting 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 conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	• The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors in particular to changes in economic and credit conditions. • Sensitivity analysis of ECL has not been included due to the impact of divisionalisation that occurred on 1 January 2020 as such management do not consider the disclosures to be meaningful.

(g) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(h) Employee compensation and benefits

Share-based payments

The Entity enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The HSBC group operates a number of pension schemes including defined benefit, defined contribution, and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurement of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans is accounted for on the same basis as defined benefit pension plans.

(i) 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 Entity 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.

(j) Provisions, contingent liabilities and guarantees

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 entity to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The Entity has issued financial guarantees and similar contracts to other group entities. The group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(k) Property, plant and equipment

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRSs ('deemed cost'), less impairment losses and depreciation over their estimated useful lives, as follows:

- freehold land is not depreciated;
- freehold buildings are depreciated at the greater of 2% per annum on a straight-line basis or over their remaining useful lives; and
- leasehold land and buildings are depreciated over the shorter of their unexpired terms of the leases or their remaining useful lives.

Equipment, fixtures and fittings (including equipment on operating leases where the Entity is the lessor) are stated at cost less impairment losses and depreciation over their useful lives, which are generally between 0 years and 20 years. Property, plant and equipment is subject to an impairment review if their carrying amount may not be recoverable.

(l) Intangible assets

Intangible assets are stated at cost less amortisation and are amortised straight line over their estimated useful lives of five years. Expenditure on internally developed software is recognised as an asset when the Entity is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the cost to complete development. Borrowing costs are not included in the capitalised costs of intangible assets. Assets are subject to regular impairment reviews which compare the carrying value to the expected value in use. Any impairment losses are recognised in the Income Statement. Amortisation does not commence until the asset is brought into operational use.

(m) 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.

(n) Cash and cash equivalents

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

2 Operating Profit

	2019 £'000	2018 £'000
Interest income		
Short-term funds and loans and advances to banks	**32,138**	18,001
Loans and advances to customers	**119,737**	122,741
Total interest income	**151,875**	140,742
Deposit by banks	**1,937**	498
Customer accounts	**42,588**	26,570
Other interest paid	**747**	—
Total interest expense	**45,272**	27,068

	2019 £'000	2018 £'000
Fee income		
Fees earned on financial assets or liabilities not held for trading nor designated at fair value other than included in effective interest rate calculations on these types of assets and liabilities	**11,349**	6,106
Fees earned on trust and other fiduciary activities where the Entity holds or invests assets on behalf of its customers	**34,029**	34,613
Total fee income	**45,378**	40,719
Fee expense		
Fees payable on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	**11,568**	14,077
Total fee expense	**11,568**	14,077
Loan impairment charge and other credit risk provisions		
Net impairment charge on loans and advances	**14,162**	605

3 Employee compensation and benefits

Total employee compensation

	2019 £'000	2018 £'000
Wages and salaries including share-based payments	**36,382**	33,884
Social security costs	**4,839**	4,881
Post-employment benefits	**5,178**	3,986
Year ended 31 Dec	**46,399**	42,751

Average number of persons employed by the Entity during the year

	2019	2018
Client/Product Services	**288**	277
Operations and Support	**13**	5
Head Office Administration	**14**	11
Year ended 31 Dec	**315**	293

Management charge for services provided by ServCo group is included in General and administrative expense.

Post-employment benefit plans

The Entity's employees are members of various schemes. Some are defined benefit plans, of which the largest is the HSBC Bank (UK) Pension Scheme ('the principal plan').

The principal plan

The principal plan has a defined benefit section and a defined contribution section. The defined benefit section was closed to future benefit accrual in 2015, with defined benefits earned by employees at that date continuing to be linked to their salary while they remain employed by HSBC UK Bank plc. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the group.

To meet the requirements of the Banking Reform Act, from 1 July 2018, the main employer of the plan changed from HSBC Bank plc to HSBC UK Bank plc, with additional support from HSBC Holdings plc.

There is no contractual agreement or stated policy for charging the net defined benefit cost from HSBC UK Bank plc to the other members of the group pension plan. Instead the Entity makes a regular payment to HSBC UK Bank plc, for HSBC UK Bank plc to invest in the various schemes on behalf of the Entity's employees. The Entity would not contribute to any scheme deficit, except through amendments to its regular payments. Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2019, of which employees of the Entity are members, are disclosed in the statutory accounts of HSBC UK Bank plc.

In 2019, the pension cost for defined contribution plans which cover 99% of the Entity's employees was £5,178,000 (2018: £3,986,000).

4 Share-based payments

The share-based payment income statement charge is recognised in wages and salaries as follows:

	2019	2018
	£'000	£'000
Restricted share awards	984	608
Savings-related and other share award option plans	784	376
Year ended 31 Dec	**1,768**	984

HSBC share award plans

Plans	Policy
Restricted share awards (including annual incentive awards delivered in shares) and Group Performance Share Plan ('GPSP')	• An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. • Deferred share awards generally vest over a period of three years and GPSP awards vest after five years. • Vested shares may be subject to a retention requirement post-vesting. GPSP awards are retained until cessation of employment. Awards granted from 2010 onwards are subject to malus provision prior to vesting. • Awards granted to Material Risk Takers from 2016 onwards are subject to clawback post vesting.

Movement on HSBC share awards

	2019	2018
	Number	Number
Restricted share awards outstanding at 1 Jan	**254,345**	363,239
Additions during the year	**257,591**	204,207
Released during the year	**(208,534)**	(229,452)
Forfeited during the year	**(9,243)**	(6,829)
Transferred in/(out) during the year	**13,412**	(76,820)
Restricted share awards outstanding at 31 Dec	**307,571**	254,345
Weighted average fair value of awards granted (£)	**5.93**	6.37

HSBC share option plans

Plans	Policy
Savings-related share option plans ('Sharesave')	• Two plans: the UK plan and the International Plan. The last grant of options under the International Plan was in 2012. • From 2014, eligible employees can save up to £500 per month with the option to use the savings to acquire shares. • Exercisable within six months following either the third or fifth anniversaries of the commencement of a three-year or five-year contract, respectively. • The exercise price is set at a 20% (2018: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share options	
	Number	**WAEP[1]**
		£
Outstanding at 1 Jan 2019	**513,619**	**4.94**
Granted during the year	**333,929**	**4.69**
Exercised during the year	**(97,036)**	**4.37**
Expired during the year	**(169,392)**	**5.25**
Transferred in during the year	**29,194**	**4.54**
Outstanding at 31 Dec 2019	**610,314**	**4.75**
Weighted average remaining contractual life (years)		**2.90**

1 Weighted average exercise price

	Savings-related share options	
	Number	WAEP[1]
		£
Outstanding at 1 Jan 2018	563,744	4.41
Granted during the year	212,562	5.45
Exercised during the year	(219,993)	4.09
Expired during the year	(46,078)	5.16
Transferred in during the year	3,384	4.46
Outstanding at 31 Dec 2018	513,619	4.94
Weighted average remaining contractual life (years)		2.67

1 Weighted average exercise price

The weighted average fair value of share options outstanding, which is calculated when transactions are contracted, was £0.97 (2018: £0.95).

5 Directors' emoluments

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

	2019	2018
	£'000	£'000
Fees [1]	**197**	160
Salaries and other emoluments	**525**	1,650
Annual incentives [2]	**402**	1,191
Year ended 31 Dec	**1,124**	3,001

1 Fees included fees paid to non-executive Directors.
2 Awards made to executive Directors in respect of 2019 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £139,500 (2018: £275,588) in cash, £57,027 (2018:£269,110) in deferred cash (vesting annually over a three-year period), £139,248 (2018: £275,841) in Restricted Shares and £65,922 (2018: £370,432) in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

1 Director exercised share options over HSBC Holdings plc ordinary shares during the year (2018: 4).

Awards were made to 1 Director under long-term incentive plans in respect of qualifying services rendered in 2019 (2018: 4 Directors). During 2019, 1 Director received shares in respect of awards under long-term incentive plans that vested during the year (2018: 4).

Retirement benefits are accrued for 1 Director under money purchase schemes in respect of Directors' qualifying service. Contributions of £23,495 (2018:£39,794) were made during the year to money purchase arrangements.

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Entity's ultimate parent company, HSBC Holdings plc. The cost of any conditional awards under the HSBC Share Plan and the HSBC Plan 2011 ('the Plans') is recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.

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

	2019	2018
	£'000	£'000
Salaries and other emoluments	**525**	877
Annual incentives [1]	**402**	563
Year ended 31 Dec	**927**	1,440

1 Awards made to the highest paid Director in respect of 2019 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £139,500 (2018: £113,370) in cash, £57,027 (2018: £141,670) in deferred cash (vesting annually over a three-year period), £139,248 (2018: £113,063) in Restricted Shares and £65,922 in deferred Restricted Shares (2018: £195,299) (vesting annually over a three-year period) issued under the HSBC Share Plan.

The highest paid Director received 32,954 (2018: 51,386) shares, in respect of qualifying services, as the result of awards under long-term incentive plans that vested during the year. The highest paid Director exercised 2,223 shares options over HSBC Holdings plc ordinary shares during the year (2018: 0).

Pension contributions of £23,495 (2018: £10,702) were made by the Entity in respect of services by the highest paid Director during the year.

6 Auditors' remuneration

	2019 £'000	2018 £'000
Audit fees for statutory audit		
- Fees relating to current year	151	100
Fees for other services provided to the Entity		
- Other audit-related services pursuant to such legislation	26	26
Year ended 31 Dec	**177**	126

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

7 Tax

Tax expense

	2019 £'000	2018 £'000
Current tax		
UK Corporation tax		
- For this year	3,492	10,854
- Adjustments in respect of prior years	(278)	(124)
Total current tax	**3,214**	10,730
Deferred tax		
- For this year	203	156
- Effects of changes in tax rates	78	55
- Adjustments in respect of prior years	59	(9)
Total deferred tax	**340**	202
Year ended 31 Dec	**3,554**	10,932

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

In the UK Budget on 8 July 2015, the UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020, and this was enacted in Finance (No2) Act in September 2016.

This therefore has been taken into account in the calculation of the UK related deferred tax balances as these balances will materially reverse after 1 April 2020.

The UK Government introduced a surcharge on banking companies in the Finance (No 2) Act 2015 to apply with effect from 1 January 2016. The Entity meets the definition of a banking company and is therefore subject to the 8% bank surcharge. The surcharge has also been taken into account in the calculation of the deferred tax balances of this Entity, therefore deferred tax is recognised at 25%.

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax relating to items that are credited directly to equity is £2,137.

The tax liability value was £3.3m as at 31 December 2019 (2018: £10.6m)

Tax reconciliation

The tax charged to income statement differs from the tax expense that would apply if all profits had been taxed at the UK Corporation tax rate as follows:

	2019 £'000	2019 (%)	2018 £'000	2018 (%)
Profit before tax	12,922		42,439	
Tax at 19.00% (2018: 19.00%)	2,455	19.00	8,063	19.00
Adjustments in respect of prior period liabilities	(219)	(1.69)	(134)	(0.31)
Permanent disallowables	130	1.00	33	0.07
Adjustments in respect of share-based payments	92	0.72	39	0.09
Impact due to changes in tax rates	86	0.66	67	0.16
Non-taxable income and gains	–	–	(254)	(0.60)
Banking surcharge	1,010	7.82	3,118	7.35
Year ended 31 Dec	**3,554**	**27.50**	10,932	25.76

The effective tax rate for 2019 of 27.5% was higher than the UK corporation tax rate of 19%.

8 Deferred tax

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

	Property, plant and equipment	Share based payments	Other temporary differences	IFRS 9 Transitional adjustments	Total
	£'000	£'000	£'000	£'000	£'000
At 1 Jan 2019	**284**	**474**	**258**	**1,122**	**2,138**
Income statement charge	**15**	**(37)**	**(126)**	**(133)**	**(281)**
Equity statement expense	**—**	**(84)**	**—**	**—**	**(84)**
Prior year adjustments	**73**	**—**	**(132)**	**—**	**(59)**
At 31 Dec 2019	**372**	**353**	**—**	**989**	**1,714**
At 1 Jan 2018	200	946	253	1,255	2,654
Income statement charge	90	(172)	5	(133)	(210)
Equity statement expense	—	(333)	—	—	(333)
Prior year adjustments	(6)	33	—	—	27
At 31 Dec 2018	284	474	258	1,122	2,138

9 Dividends

An interim dividend of £31,500,000 was declared and paid by the Directors on 8 March 2019.

10 Reconciliation of profit before tax to net cash flow from operating activities

	2019	2018
	£'000	£'000
Non-cash item included in profit and loss		
Depreciation, amortisation and impairment	**5,719**	3,167
Share-based payment expense	**393**	209
Credit-related impairment gains/(losses)losses	**14,162**	605
Provisions raised/(released)	**1,584**	(2,278)
Fair value movements in financial assets designated at fair value	**—**	209
	21,858	1,912
Change in operating assets		
Change in prepayment and accrued income	**(649)**	1,411
Change in loans and advances to banks	**195,078**	1,546,874
Change in loans and advances to customers	**(64,912)**	222,690
Change in other assets	**(18,235)**	48,522
	111,282	1,819,497
Change in operating liabilities		
Change in accruals, deferred income and other liabilities	**101,887**	(24,917)
Change in customer accounts	**656,852**	(760,356)
	758,739	(785,273)
Cash and cash equivalents comprise		
Cash and balances at central banks	**10,502**	9,490
Loans and advances to bank of one month or less	**2,592,450**	1,772,720
	2,602,952	1,782,210
Interest and dividends		
Interest paid	**44,618**	26,881
Interest received	**152,127**	142,734
	196,745	169,615

Re-presentation of reconciliation of profit before tax to net cash flow from operating activities

The change in other assets and change in accruals, deferred income and other liabilities lines in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an increase in Change in other assets of £117m and a decrease in accruals, deferred income and other liabilities of £117m.

11 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost.

At 31 Dec 2019	FVPL £'000	Amortised cost £'000	Total £'000
Assets			
Cash and balances with central banks	–	10,502	10,502
Derivatives	3,437	–	3,437
Loans and advances to banks	–	2,592,450	2,592,450
Loans and advances to customers	–	4,292,551	4,292,551
Accrued income	–	16,504	16,504
Other assets	–	13,493	13,493
Total financial assets	3,437	6,925,500	6,928,937
Total non-financial assets			30,913
Total assets			6,959,850
Liabilities			
Customer accounts	–	5,934,496	5,934,496
Derivatives	3,557	–	3,557
Accruals, deferred income and other liabilities	–	424,471	424,471
Provisions	–	1,670	1,670
Total financial liabilities	3,557	6,360,637	6,364,194
Total non-financial liabilities			3,328
Total liabilities			6,367,522

At 31 Dec 2018	FVPL £'000	Amortised cost £'000	Total £'000
Assets			
Cash and balances with central banks	–	9,490	9,490
Derivatives	5,248	–	5,248
Loans and advances to banks	–	1,967,797	1,967,797
Loans and advances to customers	–	4,258,627	4,258,627
Accrued income	–	15,817	15,817
Other assets	–	6,894	6,894
Total financial assets	5,248	6,258,625	6,263,873
Total non-financial assets			23,552
Total assets			6,287,425
Liabilities			
Customer accounts	–	5,338,158	5,338,158
Derivatives	5,464		5,464
Accruals, deferred income and other liabilities	–	318,786	318,786
Provisions	–	350	350
Total financial liabilities	5,464	5,657,294	5,662,758
Total non-financial liabilities			10,599
Total liabilities			5,673,357

Re-presentation of analysis of financial assets and liabilities by measurement basis

The total non financial assets in the above table, for the year ended 31 December 2018, has been represented to exclude other assets and accrued income which have now been disclosed within total financial assets for £23m. Similarly, total non financial liabilities in the above table, for the year ended 31 December 2018, has been represented to exclude accruals, deferred income and other liabilities and provisions which have now been disclosed within total financial liabilities for £319m. The total financial asset and total financial liabilities have been represented, due to an erroneous gross up in 2018 accounts. As a result, there is an decrease in total financial assets and total financial liabilities of £117m.

12 Fair value of financial instruments carried at fair value

Control framework

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

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

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

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

Fair value hierarchy

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

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

Financial instruments carried at fair value and bases of valuation

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Recurring fair value measurements at 31 Dec				
Assets				
Derivatives	**–**	**3,437**	**–**	**3,437**
Liabilities				
Derivatives	**–**	**3,557**	**–**	**3,557**

	2018			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Derivatives	–	5,248	–	5,248
Liabilities				
Derivatives	–	5,464	–	5,464

There were no significant transfers between financial instruments classified as Level 1 and Level 2 in 2019 (2018: nil).

13 Fair value of financial instruments not carried at fair value

Fair values are determined according to the hierarchy set out in Note 12 .

Fair values at the balance sheet date of the assets and liabilities set out below are estimated for the purpose of disclosure as follows:

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted price	Observable inputs	Significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000
At 31 Dec 2019					
Assets					
Loans and advances to banks	**2,592,450**	**–**	**2,592,450**	**–**	**2,592,450**
Loans and advances to customers	**4,292,551**	**–**	**1,334,285**	**2,973,529**	**4,307,814**
Liabilities					
Customer accounts	**5,934,496**	**–**	**5,934,496**	**–**	**5,934,496**

Where repricing is greater than six months using discounted cash flow, each loan or deposit is valued using a LIBOR-based discount curve applied to the expected cash flows.

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted price	Observable inputs	Significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000
At 31 Dec 2018					
Assets					
Loans and advances to banks	1,967,797	–	1,967,797	–	1,967,797
Loans and advances to customers	4,258,627	–	1,276,130	3,004,818	4,280,948
Liabilities					
Customer accounts	5,338,158	–	5,318,515	–	5,318,515

Gross amount of fair value of loans and advances to customers by industry sector

	Carrying amount			Fair value		
	Not impaired	Impaired	Total	Not impaired	Impaired	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers						
- personal	**2,963,850**	**166,201**	**3,130,051**	**2,939,154**	**158,480**	**3,097,634**
- corporate and commercial	**559,156**	**142,845**	**702,001**	**570,365**	**124,365**	**694,730**
- non-bank financial institutions	**513,878**	**6,967**	**520,845**	**508,555**	**6,895**	**515,450**
At 31 Dec 2019	**4,036,884**	**316,013**	**4,352,897**	**4,018,074**	**289,740**	**4,307,814**
Loans and advances to customers						
- personal	3,009,225	151,004	3,160,229	3,024,687	129,865	3,154,552
- corporate and commercial	887,896	148,785	1,036,681	911,499	132,221	1,043,720
- non-bank financial institutions	103,685	5,730	109,415	82,404	272	82,676
At 31 Dec 2018	4,000,806	305,519	4,306,325	4,018,590	262,358	4,280,948

Valuation

Fair value is an estimate of 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. It does not reflect the economic benefits and costs that the Entity expects to flow from an instrument's cash flow over its expected future life. The Entity's valuation methodologies and assumptions in determining fair values for which no observable market process are available may differ from those of other companies.

Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the Entity believes are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans and trading inputs from other market participants including observed primary and secondary trades. From time to time, we may engage a third-party valuation specialist to measure the fair value of a pool of loans.

The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting future cash flows over the time period they are expected to be recovered.

Customer accounts

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

14 Derivatives

Trading derivatives

Derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. The held-for-trading category also includes derivatives managed in conjunction with financial instruments designated at fair value.

Notional contract amounts and fair values of derivatives by product contract types

	At 31 Dec 2019			At 31 Dec 2018		
	Notional contract	Fair value - Assets	Fair value - Liabilities	Notional contract	Fair value - Assets	Fair value - Liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
Foreign exchange	388,148	3,437	3,557	560,479	5,239	5,464
Interest rate	–	–	–	20,000	9	–
Total	**388,148**	**3,437**	**3,557**	580,479	5,248	5,464

15 Hedging instruments

The Entity uses derivatives (interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios. This enables the Entity to mitigate the market risk which would otherwise arise from structural imbalances in the contract rates and other profiles of its assets and liabilities.

As at 31 December 2019, the Entity does not have any qualifying hedges in place. (2018: Nil)

16 Loans and advances to banks

	2019	2018
	£'000	£'000
Nostro balances with parent and fellow subsidiaries	238,431	222,073
Loans and advances held with banks	2,354,019	1,745,724
At 31 Dec	**2,592,450**	1,967,797

17 Loans and advances to customers

	2019	2018
	£'000	£'000
Gross loans and advances to customers	4,352,758	4,305,801
Fair value adjustment to loans hedged by designated swaps	139	524
Impairment allowances	(60,346)	(47,698)
At 31 Dec	**4,292,551**	4,258,627

Loans and advances to customers by industry sector

	2019		2018	
	Gross loans and advances to customers	Gross loan by industry as % of total gross loans	Gross loans and advances to customers	Gross loan by industry as % of total gross loans
	£'000	%	£'000	%
Personal				
- Residential mortgages	2,470,871	56.77	2,198,873	51.06
- Other personal	659,180	15.14	961,356	22.32
Corporate and commercial				
- Commercial, industrial and trade	251,741	5.78	36,141	0.84
- Commercial real estate	415,343	9.54	460,090	10.68
- Other property-related	34,917	0.80	203,840	4.73
- Other commercial	–	–	336,610	7.82
Financial	520,845	11.97	109,415	2.54
At 31 Dec	**4,352,897**	**100.00**	4,306,325	100.00
Impaired loans	316,013		305,519	
as a % of total		7		7

18 Property, plant and equipment

Property, plant and equipment consists of a gold set valued at £0.4m as at 31st December 2019 (2018: £0.3m).

19 Intangible assets

	Software Development	
	2019	2018
	£'000	£'000
Cost		
At 1 Jan	**24,827**	9,697
Additions	**13,552**	15,159
Impairment	**—**	(29)
As at 31 Dec	**38,379**	24,827
Accumulated amortisation		
At 1 Jan	**(3,743)**	(605)
Charge for the year	**(5,719)**	(3,138)
Other	**(106)**	—
As at 31 Dec	**(9,568)**	(3,743)
Net book value		
At 1 Jan	**21,084**	9,092
As at 31 Dec	**28,811**	21,084

20 Other assets

	2019	2018
	£'000	£'000
Amounts due from parent	**—**	—
Amounts due from HSBC Bank plc	**1,289**	445
Amounts due from other group companies	**11,513**	4,596
Other assets	**691**	1,853
At 31 Dec	**13,493**	6,894

Re-presentation of Other assets

The amounts due from parent and amounts due from other group companies in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an decrease in amounts due from parent of £116m and decrease in amounts due from other group companies of £1m.

Amounts due from group companies are unsecured and repayable on demand.

21 Customer accounts

Customer accounts increased by 11% from £5,338m in December 2018 to £5,934m in December 2019. The increase is primarily due to deposit campaign launched in Q1 2019.

22 Accruals, deferred income and other financial liabilities

	2019	2018
	£'000	£'000
Accruals and deferred income	**13,988**	19,011
Share-based payment liabilities	**2,095**	1,816
Amounts owed to immediate parent undertaking	**367,581**	125,901
Amounts owed to HSBC Bank plc	**20,084**	132,783
Amounts owed to other group companies	**16,396**	22,505
Other liabilities	**4,327**	16,770
At 31 Dec	**424,471**	318,786

Re-presentation of Accruals, deferred income and other financial liabilities

The amount owed to immediate parent undertaking in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an decrease in amount owed to immediate patent undertaking of £117m.

23 Provisions

	Restructuring provision	Legal provision	Customer redress provision	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 Jan 2019	–	–	**264**	**86**	**350**
Increase in provision	**580**	**45**	**497**	**462**	**1,584**
Decrease in provision	–	–	–	–	–
Provision utilised	–	–	**(264)**	–	**(264)**
Unused amounts reversed	–	–	–	–	–
At 31 Dec 2019	**580**	**45**	**497**	**548**	**1,670**

At 1 Jan 2018	–	1,600	–	1,028	2,628
Increase in provision	–	–	264	–	264
Decrease in provision	–	(1,600)	–	–	(1,600)
Provision utilised	–	–	–	–	–
Unused amounts reversed	–	–	–	(942)	(942)
At 31 Dec 2018	–	–	264	86	350

The entity has paid out £264,000 for customer redress for which provision was raised in 2018. A further provision of £497,000 has been raised during the year in respect of customer redress. In addition to this a legal provision of £45,000 and a restructuring provision of £580,000 were raised in 2019. There is also an increase in provision related to off-balance sheet commitments and guarantees by £462,000 during 2019.

24 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	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with central banks	**576**	–	**9,926**	–	–	–	**10,502**
Derivatives	**2,248**	**317**	**712**	**160**	–	–	**3,437**
Loans and advances to banks	**2,592,450**	–	–	–	–	–	**2,592,450**
Loans and advances to customers	**710,713**	**599,307**	**635,888**	**1,869,564**	**477,079**	–	**4,292,551**
Prepayment and accrued income	–	**16,504**	–	–	–	–	**16,504**
Other assets	**13,493**	–	–	–	–	–	**13,493**
Non-financial assets	–	–	–	–	–	**30,913**	**30,913**
At 31 Dec 2019	**3,319,480**	**616,128**	**646,526**	**1,869,724**	**477,079**	**30,913**	**6,959,850**
Liabilities and Equity							
Customer accounts	**3,732,486**	**2,133,559**	**67,634**	**817**	–	–	**5,934,496**
Derivatives	**2,247**	**302**	**956**	**52**	–	–	**3,557**
Accruals and other financial liabilities	**371,714**	**13,988**	–	**9,048**	–	**29,721**	**424,471**
Provisions	–	–	–	–	–	**1,670**	**1,670**
Non-financial liabilities	–	–	–	–	–	**3,328**	**3,328**
Equity	–	–	–	–	–	**592,328**	**592,328**
At 31 Dec 2019	**4,106,447**	**2,147,849**	**68,590**	**9,917**	–	**627,047**	**6,959,850**

	On demand	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with central banks	–	–	9,490	–	–	–	9,490
Derivatives	3,073	301	1,858	16	–	–	5,248
Loans and advances to banks	1,772,720	–	195,077	–	–	–	1,967,797
Loans and advances to customers	970,032	257,022	661,507	1,864,617	505,449	–	4,258,627
Prepayment and accrued income	–	15,817	–	–	–	–	15,817
Other assets	5,200	1,694	–	–	–	–	6,894
Non-financial assets	–	–	–	–	–	23,552	23,552
At 31 Dec 2018	2,751,025	274,834	867,932	1,864,633	505,449	23,552	6,287,425
Liabilities and Equity							
Customer accounts	3,951,339	1,276,891	101,250	8,046	632	–	5,338,158
Derivatives	3,100	290	2,061	13	–	–	5,464
Accruals and other financial liabilities	6,316	310,741	1,139	577	13	–	318,786
Provisions	–	–	–	–	–	350	350
Non-financial liabilities	–	–	–	–	–	10,599	10,599
Equity	–	–	–	–	–	614,068	614,068
At 31 Dec 2018	3,960,755	1,587,922	104,450	8,636	645	625,017	6,287,425

Re-presentation of Maturity analysis of assets and liabilities

Other assets due within 3 months and accruals and other financial liabilities due within 3 months in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is a decrease in other assets due within 3 months of £117m and a decrease in accruals and other liabilities due within 3 months of £117m.

Prepayment and accrued income, for the year ended 31 December 2018, has been represented as interest income from customer is due within 3 months. As a result, there is a decrease in Undated category of £16m and a corresponding increase in Due within 3 months category of £16m.

25 Offsetting of financial assets and financial liabilities

The amounts not set off in the balance sheet include transactions where:

- The counterparty has an offsetting exposure with HSBC and a master netting or similar arrangement in place with a right to set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- In the case of derivative and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right to set off remains appropriate.

	Amounts subject to enforceable netting arrangements				
	Gross amounts	Impairment Allowances	Net amounts in the balance sheet	Amounts Offset	Net amount
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Derivatives	**3,437**	**–**	**3,437**	**–**	**3,437**
Loans and advances to customers	**4,352,897**	**(60,346)**	**4,292,551**	**(36,580)**	**4,255,971**
At 31 Dec 2019	**4,356,334**	**(60,346)**	**4,295,988**	**(36,580)**	**4,259,408**
Derivatives	5,248	–	5,248	–	5,248
Loans and advances to customers	4,306,325	(47,698)	4,258,627	(41,605)	4,217,022
At 31 Dec 2018	4,311,573	(47,698)	4,263,875	(41,605)	4,222,270
Financial liabilities					
Derivatives	**3,557**	**–**	**3,557**	**–**	**3,557**
Customer accounts	**5,934,496**	**–**	**5,934,496**	**(36,580)**	**5,897,916**
At 31 Dec 2019	**5,938,053**	**–**	**5,938,053**	**(36,580)**	**5,901,473**
Derivatives	5,464	–	5,464	–	5,464
Customer accounts	5,338,158	–	5,338,158	(41,605)	5,296,553
At 31 Dec 2018	5,343,622	–	5,343,622	(41,605)	5,302,017

26 Called up share capital

	2019		2018	
	Number	£'000	Number	£'000
Issued, allotted and fully paid up				
Ordinary shares of £10 each	**1**	**–**	17,691,000	176,910
As at 31 Dec	**1**	**–**	17,691,000	176,910

In December 2019, Entity's Board approved a capital reduction, reducing share capital to one £10 ordinary share, in advance of the divisionalisation into HSBC UK on 1st January 2020.

27 Contingent liabilities, contractual commitments and guarantees

The following table gives the nominal principal amounts of off-balance sheet transactions:

	2019	2018
	£'000	£'000
	Contract amount	Contract amount
Contingent liabilities		
Guarantees and assets pledged as collateral security	**12,353**	21,957
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend	**970,063**	853,559
At 31 Dec	**982,416**	875,516

The Entity could be liable to pay a proportion of the outstanding amount that Financial Services Compensation Scheme ('FSCS') has borrowed from HM Treasury.

The ultimate FSCS levy to the industry as a result of the collapse cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the level of protected deposits and the population of FSCS members at the time.

28 Management of financial risk

All of the Entity'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 Entity as a going concern.

Credit risk management

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

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

The IFRS 9 allowance for ECL has increased from £47,784,000 at 31 December 2018 to £60,894,000 at 31 December 2019.

The IFRS 9 allowance for ECL at 31 December 2019 comprises £60,346,000 in respect of assets held at amortised cost and £548,000 in respect of loan commitments and financial guarantees.

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk are managed.

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

	31 Dec 2019		31 Dec 2018	
	Gross carrying/ nominal amount	**Allowance for ECL**	Gross carrying/ nominal amount	Allowance for ECL
	£'000	**£'000**	£'000	£'000
Loans and advances to customers at amortised cost	**4,352,897**	**(60,346)**	4,306,325	(47,698)
- personal	3,130,051	(28,786)	3,160,229	(25,676)
- corporate and commercial	702,001	(30,266)	1,036,681	(21,662)
- non-bank financial institutions	520,845	(1,294)	109,415	(360)
Loans and advances to banks at amortised cost	**2,592,450**	—	1,967,797	—
Other financial assets measured at amortised cost	**40,499**	—	32,201	—
Cash and balances at central banks	10,502	—	9,490	—
Accrued income and other assets	29,997	—	22,711	—
Total gross carrying amount on balance sheet	**6,985,846**	**(60,346)**	6,306,323	(47,698)
Loans and other credit related commitments	**970,063**	**(548)**	853,559	(86)
- personal	409,192	(131)	413,400	(1)
- corporate and commercial	244,288	(380)	397,429	(85)
- financial	316,583	(37)	42,730	—
Financial guarantees and similar contracts	**12,353**	—	21,957	—
- personal	10,449	—	19,787	—
- corporate and commercial	689	—	2,170	—
- financial	1,215	—	—	—
Total nominal amount off-balance sheet	**982,416**	**(548)**	875,516	(86)
At 31 Dec 2019	**7,968,262**	**(60,894)**	7,181,839	(47,784)

**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*

Re-presentation of summary of financial instruments to which impairment requirements in IFRS9 are applied

The accrued income and other assets in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an decrease in prepayment, accrued income and other assets of £117m.

The following table provides an overview of the Entity'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.
- POCI: Purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised.

Summary of credit risk by stage distribution and ECL coverage by industry sector

	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	**3,181,374**	**855,510**	**316,013**	**(3,926)**	**(6,315)**	**(50,105)**	**(0.12)**	**(0.74)**	**(15.86)**
- personal	2,414,989	548,861	166,201	(3,088)	(4,533)	(21,165)	(0.13)	(0.83)	(12.73)
- corporate and commercial	386,370	172,786	142,845	(515)	(1,164)	(28,587)	(0.13)	(0.67)	(20.01)
- non-bank financial institutions	380,015	133,863	6,967	(323)	(618)	(353)	(0.08)	(0.46)	(5.07)
Loans and advances to banks at amortised cost	**2,592,450**	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	**40,499**	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	**944,642**	**23,098**	**2,323**	**(273)**	**(275)**	–	**(0.03)**	**(1.19)**	–
- personal	398,668	9,082	1,442	(66)	(65)	–	(0.02)	(0.72)	–
- corporate and commercial	232,946	10,471	871	(177)	(203)	–	(0.08)	(1.94)	–
- non-bank financial institutions	313,028	3,545	10	(30)	(7)	–	(0.01)	(0.20)	–
Financial guarantees and similar contracts	**10,992**	**1,361**	–	–	–	–	–	–	–
At 31 Dec 2019	**6,769,957**	**879,969**	**318,336**	**(4,199)**	**(6,590)**	**(50,105)**	**(0.06)**	**(0.75)**	**(15.74)**

	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	3,782,099	218,707	305,519	(3,696)	(3,157)	(40,845)	(0.10)	(1.44)	(13.37)
- personal	2,858,492	150,733	151,004	(3,113)	(2,996)	(19,567)	(0.11)	(1.99)	(12.96)
- corporate and commercial	822,347	65,549	148,785	(552)	(153)	(20,957)	(0.07)	(0.23)	(14.09)
- non-bank financial institutions	101,260	2,425	5,730	(31)	(8)	(321)	(0.03)	(0.33)	(5.60)
Loans and advances to banks at amortised cost	1,967,797	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	32,201	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	627,666	217,283	8,610	(9)	(73)	(4)	–	(0.03)	(0.05)
- personal	335,820	74,561	3,019	–	(1)	–	(0.01)	(0.01)	–
- corporate and commercial	254,795	137,090	5,544	(9)	(72)	(4)	–	(0.04)	–
- non-bank financial institutions	37,051	5,632	47	–	–	–	–	–	–
Financial guarantees and similar contracts	13,160	8,797	–	–	–	–	–	–	–
At 31 Dec 2018	6,422,923	444,787	314,129	(3,705)	(3,230)	(40,849)	(0.06)	(0.73)	(13.00)

Re-presentation of Summary of credit risk by stage distribution and ECL coverage by industry sector

The other financial assets measured at amortised cost in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an decrease in other financial assets measured at amortised cost of £117m.

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 plus contractual commitments.

The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk and it excludes equity securities as they are not subject to credit risk. For the financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities. The offset in the table relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. No offset has been applied to off-balance sheet collateral. In the case of derivatives the offset column also includes collateral received in cash and other financial assets.

	2019			2018		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Derivatives	**3,437**	**—**	**3,437**	5,248	—	5,248
Loans and advances to banks at amortised cost	**2,592,450**	**—**	**2,592,450**	1,967,797	—	1,967,797
Loans and advances to customers at amortised cost	**4,292,551**	**(36,580)**	**4,255,971**	4,258,627	(41,605)	4,217,022
Other financial assets measured at amortised cost	**40,499**	**—**	**40,499**	32,201	—	32,201
Total on balance sheet exposure to credit risk	**6,928,937**	**(36,580)**	**6,892,357**	6,263,873	(41,605)	6,222,268
Total off Balance sheet						
- Financial guarantees and similar contracts	**12,353**	**—**	**12,353**	21,957	—	21,957
- Loan and other credit related commitments	**970,063**	**—**	**970,063**	853,559	—	853,559
At 31 Dec	**7,911,353**	**(36,580)**	**7,874,773**	7,139,389	(41,605)	7,097,784

Re-presentation of Maximum exposure to credit risk

The other financial assets measured at amortised cost in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an decrease in other financial assets measured at amortised cost of £117m.

II. Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions (see loans and advances to customers by industry table on Note 17). The Entity uses a number of controls and measures to minimise undue concentration of exposure in the Entity's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Credit deterioration of financial instruments

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

Reconciliation of gross exposure and allowances/provision for loans and advances to customers including loan commitment and financial guarantee (IFRS 9) in £'000s

The following disclosure provides a reconciliation of the Entity's gross carrying/nominal amount and allowances for loans and advances to customers 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.

	Non credit - impaired				Credit impaired		Total	
	Stage 1		Stage 2					
	Gross exposure	Allowance for ECL	Gross exposure	Allowance for ECL	Gross exposure	Allowance for ECL	Gross exposure	Allowance for ECL
As at 01 Jan 2019	**4,422,925**	**(3,705)**	**444,787**	**(3,230)**	**314,129**	**(40,849)**	**5,181,841**	**(47,784)**
Transfer of financial instruments	**(512,848)**	**(579)**	**461,517**	**1,291**	**51,331**	**(712)**	**–**	**–**
- transfers from stage 1 to stage 2	(877,886)	633	877,886	(633)	–	–	–	–
- transfers from stage 2 to stage 1	374,007	(1,246)	(374,007)	1,246	–	–	–	–
- transfers to stage 3	(9,950)	34	(43,902)	678	53,852	(712)	–	–
- transfers from stage 3	981	–	1,540	–	(2,521)	–	–	–
- Net remeasurement of ECL arising from transfer of stage	**–**	**556**	**–**	**(884)**	**–**	**(21)**	**–**	**(349)**
Changes due to modifications not derecognised	**–**	**–**	**–**	**–**	**8**	**(229)**	**8**	**(229)**
New financial assets originated or purchased	**745,484**	**(707)**	**–**	**–**	**–**	**–**	**745,484**	**(707)**
Changes to risk parameters (model inputs)	**(59,203)**	**173**	**40,898**	**(3,801)**	**(804)**	**(11,488)**	**(19,109)**	**(15,116)**
Change in model used for ECL Calculation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Asset derecognised (including final repayments)	**(452,585)**	**63**	**(67,232)**	**34**	**(45,362)**	**2,318**	**(565,179)**	**2,415**
Assets written off	**–**	**–**	**–**	**–**	**(876)**	**876**	**(876)**	**876**
Credit related modifications that resulted in derecognition	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign exchange	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**(6,765)**	**–**	**–**	**–**	**(89)**	**–**	**(6,854)**	**–**
At 31 Dec 2019	**4,137,008**	**(4,199)**	**879,970**	**(6,590)**	**318,337**	**(50,105)**	**5,335,315**	**(60,894)**
ECL income statement charge/ (release) for the period	**–**	**88**	**–**	**(3,868)**	**–**	**(17,078)**	**–**	**(20,858)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**6,696**	**–**	**6,696**
Modifications gains or (losses) on contractual cash flows that did not result in derecognition	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total ECL income charge/ (release) for the period	**–**	**88**	**–**	**(3,868)**	**–**	**(10,382)**	**–**	**(14,162)**

	Non credit - impaired				Credit impaired		Total	
	Stage 1		Stage 2					
	Gross exposure	Allowance for ECL	Gross exposure	Allowance for ECL	Gross exposure	Allowance for ECL	Gross exposure	Allowance for ECL
As at 01 Jan 2018	4,849,765	(4,771)	223,301	(2,189)	246,274	(48,505)	5,319,340	(55,465)
Transfer of financial instruments	291,842	(46)	(492,456)	964	200,614	(918)	–	–
- transfers from stage 1 to stage 2	(404,985)	277	404,985	(277)	–	–	–	–
- transfers from stage 2 to stage 1	848,715	(411)	(848,715)	411	–	–	–	–
- transfers to stage 3	(151,888)	88	(48,726)	830	200,614	(918)	–	–
- transfers from stage 3	–	–	–	–	–	–	–	–
- Net remeasurement of ECL arising from transfer of stage	–	163	–	(537)	–	(20)	–	(394)
Changes due to modifications not derecognised	–	–	–	–	–	–	–	–
New financial assets originated or purchased	1,303,923	(1,642)	–	–	–	–	1,303,923	(1,642)
Changes to risk parameters (model inputs)	(875,993)	(12,072)	1,131,707	(2,617)	39,823	(7,145)	295,537	(21,834)
Change in model used for ECL Calculation	–	–	–	–	–	–	–	–
Asset derecognised (including final repayments)	(1,157,865)	14,447	(417,765)	1,327	(152,070)	7,470	(1,727,700)	23,244
Assets written off	–	–	–	–	(8,349)	8,349	(8,349)	8,349
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–
Foreign exchange	–	–	–	–	–	–	–	–
Others	11,253	216	–	(178)	(12,163)	(80)	(909)	(43)
At 31 Dec 2018	4,422,925	(3,705)	444,787	(3,230)	314,129	(40,849)	5,181,841	(47,784)
ECL income statement charge/ (release) for the period	–	1,066	–	(1,064)	–	(10,052)	–	(10,050)
Recoveries	–	–	–	–	–	9,445	–	9,445
Modifications gains or (losses) on contractual cash flows that did not result in derecognition	4,137,008	–	–	–	–	4,137,008	–	–
Others	4,137,008	–	–	–	–	4,137,008	–	–
Total ECL income charge/(release) for the period		1,066	–	(1,064)	–	(607)	–	(605)

III. Credit quality

Credit quality of financial instruments

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

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

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

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

Quality classification definitions

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

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

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

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

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

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

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central bank	**10,502**	**–**	**–**	**–**	**–**	**10,502**	**–**	**10,502**
- stage 1	10,502	–	–	–	–	10,502	–	10,502
- stage 2	–	–	–	–	–	–	–	–
- stage 3	–	–	–	–	–	–	–	–
Loans and advances to banks at amortised cost	**2,592,450**	**–**	**–**	**–**	**–**	**2,592,450**	**–**	**2,592,450**
- stage 1	2,592,450	–	–	–	–	2,592,450	–	2,592,450
- stage 2	–	–	–	–	–	–	–	–
- stage 3	–	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost	**943,827**	**1,866,120**	**1,150,755**	**76,182**	**316,013**	**4,352,897**	**(60,346)**	**4,292,551**
- stage 1	891,877	1,436,314	853,183	–	–	3,181,374	(3,926)	3,177,448
- stage 2	51,950	429,806	297,572	76,182	–	855,510	(6,315)	849,195
- stage 3	–	–	–	–	316,013	316,013	(50,105)	265,908
Accrued income and other assets	**16,504**	**–**	**–**	**–**	**–**	**16,504**	**–**	**16,504**
- stage 1	16,504	–	–	–	–	16,504	–	16,504
- stage 2	–	–	–	–	–	–	–	–
- stage 3	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	**13,493**	**–**	**–**	**–**	**–**	**13,493**	**–**	**13,493**
- stage 1	13,493	–	–	–	–	13,493	–	13,493
- stage 2	–	–	–	–	–	–	–	–
- stage 3	–	–	–	–	–	–	–	–
At 31 Dec 2019	**3,576,776**	**1,866,120**	**1,150,755**	**76,182**	**316,013**	**6,985,846**	**(60,346)**	**6,925,500**
Percentage of total credit quality (%)	**51%**	**27%**	**16%**	**1%**	**5%**			
Loans and other credit related commitments	**649,754**	**166,524**	**149,644**	**1,818**	**2,323**	**970,063**	**(548)**	**969,515**
- stage 1	649,325	154,478	140,839	–	–	944,642	(273)	944,369
- stage 2	429	12,046	8,805	1,818	–	23,098	(275)	22,823
- stage 3	–	–	–	–	2,323	2,323	–	2,323
Financial guarantee and similar contracts	**55**	**10,074**	**2,224**	**–**	**–**	**12,353**	**–**	**12,353**
- stage 1	55	10,039	898	–	–	10,992	–	10,992
- stage 2	–	35	1,326	–	–	1,361	–	1,361
- stage 3	–	–	–	–	–	–	–	–
- POCI	–	–	–	–	–	–	–	–
At 31 Dec 2019	**4,226,585**	**2,042,718**	**1,302,623**	**78,000**	**318,336**	**7,968,262**	**(60,894)**	**7,907,368**

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central bank	9,490	–	–	–	–	9,490	–	9,490
- stage 1	9,490	–	–	–	–	9,490	–	9,490
- stage 2	–	–	–	–	–	–	–	–
- stage 3	–	–	–	–	–	–	–	–
Loans and advances to banks at amortised cost	1,967,797	–	–	–	–	1,967,797	–	1,967,797
- stage 1	1,967,797	–	–	–	–	1,967,797	–	1,967,797
- stage 2	–	–	–	–	–	–	–	–
- stage 3	–	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost	675,689	2,071,772	1,199,636	53,709	305,519	4,306,325	(47,698)	4,258,627
- stage 1	670,389	2,054,239	1,057,471	–	–	3,782,099	(3,696)	3,778,403
- stage 2	5,300	17,533	142,165	53,709	–	218,707	(3,157)	215,550
- stage 3	–	–	–	–	305,519	305,519	(40,845)	264,674
Accrued income and other assets	15,817	–	–	–	–	15,817	–	15,817
- stage 1	15,817	–	–	–	–	15,817	–	15,817
- stage 2	–	–	–	–	–	–	–	–
- stage 3	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	6,894	–	–	–	–	6,894	–	6,894
- stage 1	6,894					6,894	–	6,894
- stage 2					–	–	–	–
- stage 3	–	–	–	–		–	–	–
At 31 Dec 2018	2,675,687	2,071,772	1,199,636	53,709	305,519	6,306,323	(47,698)	6,258,625
Percentage of total credit quality (%)	42%	33%	19%	1%	5%			
Loans and other credit related commitments	517,527	206,525	119,872	1,025	8,610	853,559	(86)	853,473
- stage 1	440,394	187,272	–	–	–	627,666	(9)	627,657
- stage 2	77,133	19,253	119,872	1,025	–	217,283	(73)	217,210
- stage 3	–	–	–	–	8,610	8,610	(4)	8,606
- POCI	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts	112	13,918	7,927	–	–	21,957	–	21,957
- stage 1	112	13,048	–	–	–	13,160	–	13,160
- stage 2	–	870	7,927	–	–	8,797	–	8,797
- stage 3	–	–	–	–	–	–	–	–
- POCI	–	–	–	–	–	–	–	–
At 31 Dec 2018	3,193,326	2,292,215	1,327,435	54,734	314,129	7,181,839	(47,784)	7,134,055

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

The other financial assets measured at amortised cost in stage 1 under strong category in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is an decrease in other financial assets measured at amortised cost in stage 1 under strong category of £117m.

Credit impaired loans

The Entity 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 loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit impaired.

IV. Renegotiated loans and forbearance

The Entity may renegotiate the terms and conditions of a loan for a number of reasons which include changing market conditions, customer retention and other reasons not related to the credit condition of a customer. Under certain circumstances, the Entity may renegotiate the terms and conditions of a loan in response to actual or perceived financial difficulties of a customer; this practice of renegotiation for credit purposes is known as forbearance.

A range of forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. The policies and practices are based on criteria which, in the judgement of local management, indicate that repayment is likely to continue.

Forbearance strategies include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosure, and other forms of loan modifications and re-aging. These management policies and practices typically provide the customer with terms and conditions that are more favourable than those provided initially. Such arrangements could include cases where an account is brought up-to-date without full repayment of all arrears.

Loan forbearance is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised obligations. From this point forward, the Entity discloses loan forbearance as 'renegotiated loans', which represent concessions granted which the Entity would normally consider as a result of financial difficulties of a customer.

The following table shows the Entity's holdings of renegotiated loans and advances to customers by industry sector and credit quality classification:

	At 31 Dec 2019			At 31 Dec 2018		
	Neither past due not impaired	**Impaired**	**Total**	Neither past due not impaired	Impaired	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Retail	**21,681**	**63,487**	**85,168**	23,231	56,342	79,573
- Residential Mortgages	14,800	45,905	60,705	13,579	26,355	39,934
- Other personal	6,881	17,582	24,463	9,652	29,987	39,639
Commercial and real estate	**3,690**	**102,699**	**106,389**	7,644	64,136	71,780
Corporate and commercial	**14,993**	**3,090**	**18,083**	—	7,451	7,451
Other	**4,250**	**1,129**	**5,379**	14,001	20,778	34,779
At 31 Dec	**44,614**	**170,405**	**215,019**	44,876	148,707	193,583
Impairment allowance on renegotiated loans			**(40,860)**			(32,670)
Renegotiated loans and advances as % of total gross loans (%)			4.9%			4.5%

V. Collateral and other credit enhancements

The Entity follows guidelines as to the acceptability of specific classes of collateral or credit risk mitigation. While collateral is important in mitigating credit risk, it is the Entity's practice to lend on the basis of the customer's ability to meet their obligations out of cash from resources rather than rely on the value of security offered.

The principal collateral types are as follows:

- in the personal sector, mortgages over residential properties, cash and securities;
- in the commercial real estate sector, charges over the properties being financed; and
- in the financial sector, charges over financial instruments such as debt securities, bank guarantees and equities in support of trading facilities.

Summary of loan book analysed by collateral type is provided below

	2019	2018
	£'000	£'000
Other property	**630,431**	663,876
Residential property	**2,543,709**	2,470,132
Cash backed	**541,367**	359,958
Other	**594,431**	767,537
Unsecured	**42,959**	44,822
Gross loans and advances to customers	**4,352,897**	4,306,325

Other property is predominantly UK residential investment property and UK commercial investment property.

Other collateral includes charges over marketable investments such as stocks, shares and bonds, hold covered guarantees and charges over music rights and other assets.

Collateral held is analysed separately for commercial real estate, other corporate, commercial, financial (non-bank) and residential mortgage lending.

Commercial real estate and other commercial loans and advances including loan commitments by level of collateral.

	2019 £'000	2018 £'000
Rated CRR 1 to 7		
Not collateralised	**15,316**	47,239
Fully collateralised	**775,873**	1,527,199
Partially collateralised	**9,474**	19,117
- collateral value	4,690	14,532
Rated CRR 8 to 10		
Not collateralised	**214**	1,387
Fully collateralised	**145,414**	153,676
LTV ratio:		
- Less than 50%	14,494	74,792
- 51% to 75%	25,847	39,735
- 76% to 90%	32,193	32,727
- 91% to 100%	72,880	6,422
Partially collateralised		
Greater than 100% LTV	**—**	2,215
- collateral value	—	—
At 31 Dec	**946,291**	1,750,833

Other corporate and financial (non-bank) loans and advances including loan commitments by level of collateral rated CRR 8 to 10

	2019 £'000	2018 £'000
Not collateralised	**—**	85,272
Fully collateralised	**6,384**	5,777
LTV Ratio:		
- Less than 50%	4,269	359
- 51% to 75% LTV	2,115	4,809
- 76% to 90% LTV	—	609
Partially collateralised		
Greater than 100% LTV	**592**	—
- collateral value	476	—
At 31 Dec	**6,976**	91,049

Residential mortgage lending

The table below shows residential mortgage lending including off-balance sheet loan commitments by level of collateral. The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral. The value of collateral is determined using professional valuations and house prices indices.

	2019	2018
	£'000	£'000
Non-impaired loans and advances		
Fully collateralised	**2,379,467**	2,127,148
- Less than 50% LTV	601,603	689,478
- 51% to 60% LTV	495,148	354,038
- 61% to 70% LTV	609,774	593,591
- 71% to 80% LTV	521,968	363,444
- 81% to 90% LTV	113,987	118,018
- 91% to 100% LTV	36,987	8,579
Partially collateralised		
Greater than 100% LTV	**49,360**	73,303
- collateral value	43,147	60,589
Impaired loans and advances		
Fully collateralised	**128,896**	85,721
- Less than 50% LTV	6,924	8,749
- 51% to 60% LTV	25,639	23,950
- 61% to 70% LTV	35,039	24,226
- 71% to 80% LTV	35,435	18,313
- 81% to 90% LTV	16,355	8,024
- 91% to 100% LTV	9,504	2,459
Partially collateralised		
Greater than 100% LTV	**12,283**	9,803
- collateral value	10,436	8,514
At 31 Dec	**2,570,006**	2,295,975

Re-presentation of Residential mortgage lending

The residential mortgage lending including off-balance sheet commitment, which were disclosed at 31 December 2018, have been re-presented. As a result of re-presentation, balances as at 31 December 2018 has decreased from £3,157m to £2,296m due to other personal lending been excluded from the disclosure.

Liquidity risk management

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

The Company is part of the Domestic Liquidity Sub-group ('Liquidity Group') of HSBC UK Bank plc and therefore part of the internal liquidity control and management structure of HSBC UK Bank plc. The entity liquidity position is managed as part of the HSBC Bank UK plc Liquidity Group, under which members agree to provide liquidity support when necessary.

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

	Carrying value	Contractual cash flows	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Customer accounts	**–**	**–**	**3,732,486**	**2,133,559**	**67,634**	**817**	**–**	**5,934,496**
Financial guarantees	**–**	**–**	**–**	**939**	**10,315**	**1,099**	**–**	**12,353**
Loan commitments	**–**	**–**	**15,295**	**157,604**	**540,213**	**193,026**	**63,925**	**970,063**
At 31 Dec 2019	**–**	**–**	**3,747,781**	**2,292,102**	**618,162**	**194,942**	**63,925**	**6,916,912**
Customer accounts	–	–	3,951,340	1,282,343	102,546	8,592	731	5,345,552
Financial guarantees	–	–	364	10,636	10,957	–	–	21,957
Loan commitments	–	–	–	152,876	570,166	121,717	8,800	853,559
At 31 Dec 2018	–	–	3,951,704	1,445,855	683,669	130,309	9,531	6,221,068

Market risk management

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

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

The Entity manages market risk through risk limits approved by the HSBC Company Executive Committee and adopted by the Entity's Board. An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

Disclosures on market price risk, foreign exchange risk and interest rate risk are provided below.

Market price risk

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

The Entity uses Value at risk ('VAR') to monitor and limit market risk exposures. VAR is a technique that estimates the potential losses on risk positions in a portfolio as a result of movement in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model is based predominantly on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

VAR measures in the table below are calculated to a 99% confidence level and use a one-day holding period.

	2019 **£'000**	2018 £'000
Value at risk		
At 31 Dec	**25**	34
Average	**25**	89
Minimum	**14**	10
Maximum	**47**	175

The nature of VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions. Although a valuable guide to risk, VAR should always be viewed in the context of limitations. For example:

- the use of a historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or the risks offset in one day;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

Foreign exchange risk

The table below shows an analysis of assets and liabilities between balances denominated in sterling and those denominated in other currencies.

As at 31 Dec 2019	**US dollars** **£'000**	**Sterling** **£'000**	**Euro** **£'000**	**Other** **£'000**	**Total** **£'000**
Total assets	**995,911**	**5,533,282**	**341,215**	**66,145**	**6,936,553**
Total liabilities and equity	**(1,002,707)**	**(5,534,028)**	**(340,971)**	**(58,847)**	**(6,936,553)**
Net exposure	**(6,796)**	**(746)**	**244**	**7,298**	**–**

As at 31 Dec 2018	US dollars £'000	Sterling £'000	Euro £'000	Other £'000	Total £'000
Total assets	891,515	4,900,196	329,896	120,276	6,241,883
Total liabilities and equity	(895,174)	(4,905,948)	(332,430)	(108,331)	(6,241,883)
Net exposure	(3,659)	(5,752)	(2,534)	11,945	–

Re-presentation of Foreign exchange risk

Total assets in Sterling and total liabilities and equity in Sterling in the above table for the year ended 31 December 2018 has been represented due to an erroneous gross up in 2018 accounts. As a result, there is a decrease in total assets in Sterling and total liabilities and equity in Sterling of £117m.

Interest rate risk

Interest rate risk is managed internally by monitoring the sensitivity of the fair value of the Entity's assets and liabilities to a 0.01% shift in yield curves (the present value of a basis point or 'PVBP'). At 31 December 2019 the Entity's risk as measured by PVBP was nil (2018: £nil). PVBP is the change in the present value of future cash flows and not recognised as an immediate gain or loss in the income statement.

The table below discloses the mismatch of the dates on which interest on assets and liabilities are next reset to market rate on a contractual basis or, if earlier, the dates on which assets and liabilities mature as at 31 December 2019. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour of assets and liabilities.

	Not more than 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	More than 5 years	Non-interest bearing	Total
At 31 Dec 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets							
Loans and advances to banks	**2,592,450**	**–**	**–**	**–**	**–**	**–**	**2,592,450**
Loans and advances to customers	**1,329,095**	**324,420**	**344,149**	**1,876,928**	**478,305**	**(60,346)**	**4,292,551**
Other assets	**13,493**	**–**	**9,926**	**–**	**–**	**51,430**	**74,849**
Total assets	**3,935,038**	**324,420**	**354,075**	**1,876,928**	**478,305**	**(8,916)**	**6,959,850**
Liabilities and shareholders' equity							
Customer accounts	**4,999,362**	**58,838**	**8,796**	**817**	**–**	**866,683**	**5,934,496**
Other liabilities	**202,784**	**–**	**–**	**–**	**–**	**230,242**	**433,026**
Shareholders' equity	**–**	**–**	**–**	**–**	**–**	**592,328**	**592,328**
Total equity and liabilities	**5,202,146**	**58,838**	**8,796**	**817**	**–**	**1,689,253**	**6,959,850**
Interest rate sensitivity gap	**(1,267,108)**	**265,582**	**345,279**	**1,876,111**	**478,305**	**(1,698,169)**	**–**
Cumulative interest rate sensitivity gap	**(1,267,108)**	**(1,001,526)**	**(656,247)**	**1,219,864**	**1,698,169**	**–**	**–**

	Not more than 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	More than 5 years	Non-interest bearing	Total
At 31 Dec 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans and advances to banks	1,772,720	–	195,077	–	–	–	1,967,797
Loans and advances to customers	1,280,675	205,991	449,596	1,864,614	505,449	(47,697)	4,258,628
Other assets	30,445	–	9,490	–	–	21,065	61,000
Total assets	3,083,840	205,991	654,163	1,864,614	505,449	(26,632)	6,287,425
Liabilities							
Customer accounts	4,215,733	71,118	30,132	8,046	–	1,013,129	5,338,158
Other liabilities	–	–	–	–	–	335,199	335,199
Shareholders' equity	–	–	–	–	–	614,068	614,068
Total equity and liabilities	4,215,733	71,118	30,132	8,046	–	1,962,396	6,287,425
Interest rate sensitivity gap	(1,131,893)	134,873	624,031	1,856,568	505,449	(1,989,028)	–
Cumulative interest rate sensitivity gap	(1,131,893)	(997,020)	(372,989)	1,483,579	1,989,028	–	–

Re-presentation of Interest rate risk

The non interest bearing customer accounts, which were disclosed at 31 December 2018, have been re-presented as a result of process improvements. As a result of re-presentation, there has been an increase of £1,012m in non interest bearing customer accounts and corresponding decrease in not more than three months bucket.

Other assets and other liabilities in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is a decrease in other assets not more than 3 months of £117m and non interest bearing other liabilities of £117m.

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies.

Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets reprice during a given period. In this case, a negative gap position tends to benefit net interest income in a declining interest rate environment, but again the actual effect will depend on the same factors as for positive interest rate gaps, as described above.

29 Legal proceedings and regulatory matters

The Entity is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the Entity considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been raised in respect of these matters as at 31 December 2019 (as recorded in note 23 to these financial statements).

In July 2015 and November 2015 respectively, two actions were brought by individuals against the Entity in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty to the claimants, in connection with their participation in certain Ingenious film finance schemes. These actions are ongoing.

In December 2018, a separate action was brought against the Entity in the High Court of England and Wales by multiple claimants seeking damages for alleged unlawful means conspiracy and dishonest assistance in connection with lending provided by the Entity to third parties in respect of certain Ingenious film finance schemes in which the claimants participated. In June 2019, a similar claim was issued against the Entity in the High Court of England and Wales by additional claimants. These actions are ongoing.

In February and October 2019 respectively, the Entity received two letters before claim from two largely separate groups of investors in Eclipse film finance schemes, each of which asserted various claims against the Entity in connection with its role in facilitating the design, promotion and operation of such schemes. In July 2019, a letter before claim was received by the Entity from a third party asserting various claims connected with services provided by the Entity in relation to Zeus film finance schemes. These matters are at an early stage.

It is possible that additional actions or investigations will be initiated against the Entity as a result of its historic involvement in the provision of certain film finance related services.

Based on the facts currently known, it is not practicable to estimate the resolution of the above matters, including the timing or possible aggregate impact which could be significant.

In August 2013, an action was brought in the High Court of Zimbabwe against the Entity and HSBC Bank Plc claiming losses in respect of an alleged failure to respond to enquiries following a regulatory notification. This action is ongoing. A claim against the Entity relating to the same facts was dismissed by the High Court of England and Wales in 2012.

In March 2014, an action was brought in the High Court of England and Wales against the Entity, HSBC Private Bank (Monaco) SA and HSBC Holdings plc claiming a failure by the Entity and HSBC Holdings plc to investigate properly allegations relating to the mis-selling of certain products by HSBC Private Bank (Monaco) SA. The court has dismissed the claim against HSBC Private Bank (Monaco) SA on jurisdictional grounds. The action against HSBC Holdings plc and the Entity is ongoing.

In February 2019, various HSBC companies, including the Entity, were named as defendants in a claim issued in the High Court of England and Wales that alleges foreign exchange-related misconduct. This action is ongoing.

There are many factors that may affect the range of outcomes, and the resulting financial impact of these matters, which could be significant.

30 Related party transactions

(a) Transactions with Directors and other Key Management Personnel

Key Management Personnel ('KMP') are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Entity directly and indirectly and include members of the Board of Directors of the Entity and HSBC UK Bank plc.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation.

A number of KMP are not directors of the Entity, but are directors of the Parent Company, HSBC UK Bank plc. Emoluments of these KMP are paid by other HSBC Group companies, which make no recharge to the Entity. It is not possible to make reasonable apportionment of their emoluments in respect of the Entity. Accordingly, no emoluments in respect of these KMP are included in the following disclosure.

The following represents the compensation for Directors of the Entity in exchange for services rendered to the Entity for the period they served during the year.

Compensation of Key Management Personnel

	2019	2018
	£'000	£'000
Short-term employee benefits	**525**	1,650
Post-employment benefits	**23**	40
Other long-term benefits	**218**	325
Share-based payments	**424**	687
At 31 Dec	**1,190**	2,702

Transactions, arrangements and agreements including Directors and other Key Management Personnel

There are no transactions which fall to be disclosed under IAS 24 'Related Party Disclosures' between the Entity and the Key Management Personnel.

Shareholdings, options and securities of Directors and other Key Management Personnel

	2019	2018
Number of HSBC Holding plc shares held by Directors and other key management personnel beneficially	**11,963**	377,906

(b) Transactions with other related parties

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

	2019		2018	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
	£'000	**£'000**	£'000	£'000
Assets				
Loans and advances to banks	**3,121,561**	**2,582,595**	2,073,538	1,932,455
Other assets	**–**	**–**	–	–
Derivatives	**112**	**6**	–	–
Liabilities				
Other liabilities	**367,581**	**367,581**	125,901	125,901
Derivatives	**48**	**48**	74	74

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.*

Re-presentation of Transactions with HSBC UK bank Plc

Other assets and other liabilities in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is a decrease in other assets due from HSBC UK Bank Plc and other liabilities due to HSBC UK Bank Plc by £116m.

	2019	2018
	£'000	£'000
Income statement		
Interest income	**29,464**	11,643
General and administrative expenses	**5,642**	2,069

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

	2019		2018	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
	£'000	**£'000**	£'000	£'000
Assets				
Loans and advances to banks	**79,704**	**324**	1,834,365	25,253
Derivatives	**2,440**	**2,440**	21,412	3,340
Other assets	**4,807**	**1,289**	6,232	445
Liabilities				
Other liabilities	**160,858**	**20,084**	169,170	132,783
Derivatives	**5,158**	**976**	13,986	2,254

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
	£'000	£'000
Income statement		
Interest income	**–**	5,768
Fee income	**–**	1,284
Fee expense	**3,399**	1,168
Other operating income / (expense)	**263**	(703)
General and administrative (income)/expenses	**(955)**	7,765
Dividend expense	**–**	18,000

Transactions detailed below include amounts due to/from Other Group Companies

	2019		2018	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
	£'000	**£'000**	£'000	£'000
Assets				
Loans and advances to banks	**6,757**	**8,421**	40,018	10,089
Other assets	**11,513**	**11,513**	37,386	4,596
Liabilities				
Other liabilities	**17,144**	**16,396**	60,306	22,505

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.*

Re-presentation of Transactions with Other Group Companies

Other assets and other liabilities in the above table, for the year ended 31 December 2018, has been represented due to an erroneous gross up in 2018 accounts. As a result, there is a decrease in other assets due from other group companies and other liabilities due to other group companies by £1m.

	2019	2018
	£'000	£'000
Income statement		
Fee expense	**9,216**	5,073
Other operating income	**13,784**	8,515
General and administrative expenses	**81,100**	45,489

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

31 Britain leaving the EU

The UK left the EU on 31 January 2020. We will continue to work with regulators, governments and our customers and employees to manage the risks of the UK's exit from the EU (and the current period of uncertainty) as they arise.

Uncertainty regarding the terms of the UK's exit agreement and its future relationship (including trading) with both the EU and the rest of the world is expected to continue for the next few years at least. Market volatility will therefore persist as the UK continues its negotiations with the EU and its potential future trading partners around the world. Throughout this period, we will continually update our assessment of potential consequences for our customers, products and banking model and re-evaluate our mitigating actions accordingly. The scale and nature of the impact on us will depend on the precise terms on which we and our customers will be able to conduct cross-border business following the UK's departure from the EU:

- Clients: Providing investment advice on a cross-border basis is expected to become more difficult after UK's full exit from the European Union (EU). However, given the Entity's focus on clients resident in the UK, any servicing issues with non-resident clients would most likely lead the Entity to stop doing this business and either exit clients or try to transfer them to another HSBC Private Bank booking centre in the EU.
- People: the potential loss of freedom of movement could impact our EEA staff resident in the UK and UK staff resident in an EEA country

Our priority is to ensure we continue to support our clients and people through this period of uncertainty, and help minimise any disruption.

Changes to the UK's current trade relationships could require changes to our banking model to ensure we continue to comply with law and regulation in meeting the needs of our customers and conducting our business.

Mitigating actions

- We have undertaken a comprehensive impact assessment to understand the range of potential implications for our customers, our products and our business. Where necessary, we have identified actions, including evolving our business models, to ensure we can continue to serve our customers.
- We actively monitor our portfolio to identify areas of stress, supported by stress testing analyses. Vulnerable sectors are subject to additional management review to determine if any adjustments to risk policy or appetite are required.
- We continue to stay very close to our clients, via proactive communications and dedicated channels to respond to customer queries.
- We will be supporting our EEA staff resident in the UK with their settlement applications.
- We will continue to work with regulators, governments and our clients in an effort to manage risks as they arise, particularly across the most impacted sectors.

32 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.

On 1 July 2018 the immediate parent undertaking changed from HSBC Bank plc to HSBC UK Bank plc plc as part of structural changes within HSBC Group to meet Ring Fenced Bank requirements. All companies are registered in England and Wales.

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

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

33 Events after the balance sheet date

Supporting the Group's strategy to streamline legal structures, the Entity transferred its business into HSBC UK, 1 January 2020, at book value. Such transfer is effected pursuant to a Banking Business Transfer Scheme under Part VII of the UK Financial Services and Markets Act 2000 (a Part VII Scheme). A Part VII Scheme is a court approved business transfer scheme. The Entity's business was transferred to HSBC UK by operation of law pursuant to an order of the English High Court and subject to a scheme document, which sets out the full terms of the transfer.

The Entity transferred its business into HSBC UK, 1 January 2020, at book value.

On 17 February 2020, the Directors declared a dividend to ordinary shareholders of £582m in respect of the financial year ending 31 December 2019. No liability is recognised in the financial statements in respect of this dividend.