

HSBC Global Services (UK) Limited

Registration No:7272547

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



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

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Strategic Report

Principal activities

HSBC Global Services (UK) Limited ('the Company') is a private company incorporated in England and Wales, United Kingdom. The trading address is 8 Canada Square, London E14 5HQ.

HSBC Holdings plc and its subsidiaries ('HSBC Group') continues to make changes to its corporate structure to mitigate or remove critical inter-dependencies to further facilitate the resolution of the HSBC Group. In particular, in order to remove operational dependencies (where one subsidiary provides critical services to another), the HSBC Group is in the process of transferring critical services from subsidiary banks to a separately incorporated group of services companies ('ServCo group'). The ServCo group is separately capitalised and funded to ensure continuity of services in resolution.

HSBC Global Services (UK) Limited's (the 'Company') principal activity is to provide critical shared services to the subsidiary banks of the HSBC Group. The Company generates income by charging HSBC group subsidiary banks for providing these services.

Review of the Company's business

Profit for the year increased to £196.2m (2018: £191.2m) and total equity increased to £561.6m (2018: 383.3m) and the Company paid dividends of £nil (2018: £30.0m) to its parent HSBC Global Services Limited.

Performance

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

Key performance indicators

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 risks to which the Company is exposed.

Financial KPIs

| | 2019 | 2018 |
|---------------------------|---------|---------|
| Profit before tax (£'000) | 265,160 | 237,095 |
| Margin (%) | 6% | 6% |
| Net assets (£'000) | 561,626 | 383,263 |

Margin is measured as profit before tax divided by total operating expenses.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Company are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in Note 16 of the financial statements.

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

Operational risk is relevant to every aspect of the Company's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the definition of operational risk.

The long term success of the Company is closely linked to the confidence of its stakeholders. Safeguarding and building upon the Company's reputation is the responsibility of every employee. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk. The Company always aspires to the highest standards of conduct and, as a matter of routine, takes account of reputational risks to its business.

The Company is subject to the risks of the performance of its Subsidiaries which could result in impairment of these investments.

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU. At this stage it remains unclear what that relationship will look like, potentially leaving firms with little time to adapt to changes, which may enter into force on 1 January 2021.

Our programme to manage the impact of the UK leaving the EU has now been largely completed. It is based on the assumption of a scenario whereby the UK exits the transition period without the existing passporting or regulatory equivalence framework that supports cross-border business. Our focus has been on four main components: legal entity restructuring; product offering; customer migrations; and employees.

The COVID-19 outbreak has had, and continues to have, a material impact on businesses around the world which is resulting in increased volatility in the economic environments in which they operate. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company and its clients, the Directors have considered the impact when carrying out an assessment of the principal risks facing the Company. The COVID-19 outbreak has resulted in increased market volatility, however this is not considered to have a significant impact on the principal risks facing the Company, with operational risks appropriately mitigated through the implementation of business continuity plans.

Section 172 statement

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

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

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

During the year, the Board has received management reports and presentations on issues concerning customers, the environment, communities, suppliers, employees, regulators, governments and investors. These are taken into account in the Board's discussions and decision-making process.

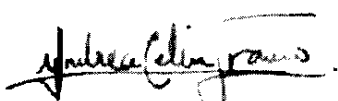
The majority of decisions made by the Board during the year are deemed to be routine in nature and are taken on a cyclical basis. The Board approved the payment of a dividend to its parent company, HSBC Holdings plc, during 2019, the timing of which required engagement with and consideration of parent company's interests and the longer term interests of the company. The decisions on dividends were taken after careful consideration of the financial position of the company, its obligations under Companies Act and the need to consider its longer term relationship with its parent company.

As a result of these activities, the Board believes it has demonstrated compliance with their legal duty under s. 172 of the Companies Act 2006.

Stakeholder engagement

The Board understands the importance of effective engagement with all of its stakeholders to the long-term success of the Company. The size and distribution of our stakeholders, particularly customers, means that stakeholder engagement often takes place at an operational level. For further information on the Company's key stakeholders and the manner in which the Board takes their interests into consideration when making decisions, see the section 172 statement above.

On behalf of the Board



Maria Andrea Colin
Director
28 May 2020

8 Canada Square
London E14 5HQ

Report of the Directors

Directors

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

| Name | Appointed | Resigned |
|------------------------|---------------|-----------------|
| Richard Hennity | 22 July 2016 | 22 May 2019 |
| Andrew Maguire | 31 July 2015 | 31 January 2020 |
| Maria Andrea Colin | 16 June 2017 | |
| Michael Stewart Henley | 16 April 2018 | |

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. All Directors have the benefit of Directors' and officers' liability insurance.

Dividends

A dividend of £nil (2018: £30.0m) was paid on the ordinary share capital during the year. The Directors do not recommend a payment of a final dividend in respect of the year end 31 December 2019 (2018: £nil).

Significant events since the end of the financial year

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing global disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many other countries to protect their economies. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company and its clients, the COVID-19 outbreak is not considered to have a significant impact on the principal risks facing the Company, and it is considered a non-adjusting post balance sheet event for the purposes of the financial statements.

Future developments

No change in the Company's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the impact of the COVID-19 outbreak referred to above, together with future projections of profitability, cash flows and capital resources.

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, 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 15 of the Notes on the financial statements.

Engagement with employees and diversity

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business. Our approach aims to increase and leverage diversity of thought to improve workforce agility, enhance our risk management capability, drive innovation and grow markets. Our diversity and inclusion ambitions are focused on attracting, developing and retaining talent that reflects our customers and the communities where we do business, and deploying that talent effectively to anticipate and address expectations. A number of global employees networks support this strategy

Employment of people with a disability

The Company 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 Company 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 Company'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 Company is further encouraged through a profit participation scheme.

Capital management

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

HSBC Global Services (UK) Limited

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

In line with HSBC Group's policy, the Company is to maintain a strong capital base to support the development of its business. The Company recognises the impact on shareholder returns on the level of equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity.

An annual Group capital plan is prepared and approved by the Board of HSBC Holdings plc. The Company manages its own capital within the context of the plan, which determines an appropriate amount and mix of capital required to support planned business growth. As part of HSBC's capital management policy, capital generated in excess of planned requirements is returned to shareholders, normally by way of dividends.

The principal forms of capital are included in the following balances on the balance sheet: called up share capital, share premium account and retained earnings.

Independent auditors

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

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities set out in their report on the next page, is made with a view to distinguish the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are responsible for preparing the *Annual Report and 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').

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- 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 Company 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 Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to Auditors

In accordance with section 418 of the Companies Act 2006, the Directors' report includes a statement, in the case of each Director in office as at the date the Report of the Directors is approved, that:

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

On behalf of the Board



Maria Andrea Colin
Director
28 May 2020

8 Canada Square
London E14 5HQ

Independent auditors' report to the members of HSBC Global Services (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Global Services (UK) Limited's financial statements:

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

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

Basis of opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

HSBC Global Services (UK) Limited

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.

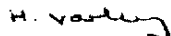
Other required reporting

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.



Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
28 May 2020

Financial statements

Income statement for the year ended 31 December 2019

| | | 2019 | 2018 |
|---|------|--------------------|--------------------|
| | Note | £'000 | £'000 |
| Interest expense from group undertakings | | (19,018) | (16,148) |
| Net interest expense from group undertakings | | (19,018) | (16,148) |
| Other operating income from group undertakings | 2 | 4,752,206 | 4,007,927 |
| Total income from group undertakings | | 4,733,188 | 3,991,779 |
| Employee compensation and benefits | 3 | (1,166,477) | (1,021,804) |
| General and administrative expenses | | (3,095,617) | (2,596,429) |
| Depreciation of property, plant and equipment and equipment and right-of-use assets | 11 | (205,934) | (136,451) |
| Total operating expenses | | (4,468,028) | (3,754,684) |
| Profit before tax | | 265,160 | 237,095 |
| Tax expense | 6 | (68,954) | (45,911) |
| Profit for the year | | 196,206 | 191,184 |

Statement of comprehensive income for the year ended 31 December 2019

| | 2019 | 2018 |
|---|----------------|-------------|
| | £'000 | £'000 |
| | | (Restated*) |
| Profit for the year | 196,206 | 191,184 |
| Other comprehensive income/(expense) | | |
| Items that will not be reclassified subsequently to profit or loss | | |
| Actuarial (losses)/gains on defined benefit plans | | |
| - before income taxes | 10,373 | (1,531) |
| - income taxes | (1,763) | 260 |
| Other comprehensive income/(expense) for the year, net of tax | 8,610 | (1,271) |
| Total comprehensive income for the year | 204,816 | 189,913 |

* See note 1.3 for details regarding the restatement as a result of an error.

HSBC Global Services (UK) Limited

Balance sheet at 31 December 2019

Registration No: 7272547

| | | 2019 £'000 | 2018 £'000 (Restated*) | 2017 £'000 (Restated*) |
|---|-------|------------------|------------------------------|------------------------------|
| | Notes | | | |
| Assets | | | | |
| Cash and cash equivalents | 8 | 613,242 | 448,728 | 15,514 |
| Trade and other receivables | 10 | 497,102 | 652,822 | 1,656,946 |
| Prepayments | | 425,053 | 279,616 | 121,100 |
| Other assets | | 165,185 | 20,487 | 118,251 |
| Retirement benefit surplus | 3 | 14,105 | 29,716 | 21,632 |
| Property, plant and equipment | 11 | 762,929 | 708,468 | 336,945 |
| Intangible assets | 12 | 59,701 | 50,584 | — |
| Deferred tax assets | 7 | 65,245 | 52,711 | 41,581 |
| Total assets | | 2,602,562 | 2,249,132 | 2,311,969 |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Financial liabilities due to group undertakings | | 595,000 | 595,000 | 425,000 |
| Accruals, deferred income and other liabilities | 14 | 1,385,298 | 1,216,224 | 1,765,931 |
| Current tax liabilities | | 60,638 | 54,645 | 33,512 |
| Total liabilities | | 2,040,936 | 1,865,869 | 2,224,443 |
| Equity | | | | |
| Called up share capital | 15 | 20,000 | 20,000 | 20,000 |
| Share premium account | | 135,000 | 135,000 | — |
| Retained earnings | | 406,626 | 228,263 | 67,526 |
| Total equity | | 561,626 | 383,263 | 87,526 |
| Total liabilities and equity | | 2,602,562 | 2,249,132 | 2,311,969 |

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

These financial statements on pages 7 to 11 were approved by the Board of Directors on 28 May 2020 and signed on its behalf by:

* See note 1.3 for details regarding the restatement as a result of an error.



Maria Andrea Colin
Director

HSBC Global Services (UK) Limited

Statement of cash flows for the year ended 31 December 2019

| | 2019 £'000 | 2018 £'000 (Restated*) |
|---|------------------|------------------------------|
| Cash flows from operating activities | | |
| Profit before tax | 265,160 | 237,095 |
| Adjustments for: | | |
| Depreciation charge | 187,092 | 136,451 |
| Change in operating assets | (147,433) | 937,372 |
| Change in operating liabilities | 187,051 | (552,300) |
| Interest expense | 19,018 | 16,148 |
| Interest paid | (17,977) | (13,901) |
| Tax credit received/(paid) | (71,817) | (36,009) |
| Change in retirement benefit asset | (5,422) | (8,084) |
| Equity-settled share based payment transaction | 5,053 | — |
| Non cash items included in profit before tax | 10,875 | 5,925 |
| Net cash generated from operating activities | 431,600 | 722,697 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (257,969) | (513,899) |
| Purchase of intangible assets | (9,117) | (50,584) |
| Net cash used in investing activities | (267,086) | (564,483) |
| Cash flows from financing activities | | |
| Changes in loans due to other group undertakings | — | 170,000 |
| Issue of ordinary share capital | — | 135,000 |
| Dividends paid | — | (30,000) |
| Net cash generated from financing activities | — | 275,000 |
| Net increase in cash and cash equivalents | 164,514 | 433,214 |
| Cash and cash equivalents brought forward | 448,728 | 15,514 |
| Cash and cash equivalents carried forward | 613,242 | 448,728 |

* See note 1.3 for details regarding the restatement as a result of an error.

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

| | Called up share capital £'000 | Share Premium £'000 | Retained earnings £'000 | Total equity £'000 |
|---|-------------------------------------|------------------------|-------------------------------|-----------------------|
| At 1 Jan 2019 | 20,000 | 135,000 | 228,263 | 383,263 |
| Profit for the year | — | — | 196,206 | 196,206 |
| - actuarial gains on defined benefit plans | — | — | 8,610 | 8,610 |
| Total comprehensive income for the year | — | — | 204,816 | 204,816 |
| Proceeds from shares issued/new shares issued | — | — | — | — |
| Dividends to shareholders | — | — | — | — |
| Net impact of equity-settled share-based payments | — | — | 4,954 | 4,954 |
| Other movements | — | — | (31,407) | (31,407) |
| At 31 Dec 2019 | 20,000 | 135,000 | 406,626 | 561,626 |
| At 1 Jan 2018 (Restated*) | 20,000 | — | 67,527 | 87,527 |
| Profit for the year | — | — | 191,184 | 191,184 |
| - actuarial losses on defined benefit plans | — | — | (1,271) | (1,271) |
| Total comprehensive income for the year | — | — | 189,913 | 189,913 |
| Proceeds from shares issued/new shares issued | — | 135,000 | — | 135,000 |
| Dividends to shareholders | — | — | (30,000) | (30,000) |
| Net impact of equity-settled share-based payments | — | — | 823 | 823 |
| Other movements | — | — | — | — |
| At 31 Dec 2018 | 20,000 | 135,000 | 228,263 | 383,263 |

* See note 1.3 for details regarding the restatement as a result of an error.

Notes on the financial statements

1. Basis of preparation and significant accounting policies

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

1.1. Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

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

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

Standards adopted during the year ended 31 December 2019

IFRS 16 'Leases'

On 1 January 2019, Company adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard increased assets by £93.4m and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

On adoption of IFRS 16, Company recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised in 'other liabilities' and measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The associated right of use ('ROU') assets were recognised in 'other assets' and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 31 December 2018. In addition, the following practical expedients permitted by the standard were applied:

- reliance was placed on previous assessments on whether leases were onerous;
- operating leases with a remaining lease term of less than 12 months at 1 January 2019 were treated as short-term leases; and
- initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

The differences between IAS 17 and IFRS 16 are summarised in the table below:

| | |
|--|--|
| Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. | <p>Leases are recognised as an ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis.</p> <p>In determining the lease term, we consider all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years.</p> <p>In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. The rates are determined for each economic environment in which we operate and for each term by adjusting swap rates with funding spreads (own credit spread) and cross-currency basis where appropriate.</p> |
|--|--|

(b) Future accounting developments

Minor amendments to IFRSs

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

(c) Presentation of information

The functional currency of the Company is pounds sterling, which is also the presentational currency of the financial statements of the Company.

Capital disclosures under IAS1 'Presentation of Financial Statements' ('IAS1') have been included in the audited sections of the 'Report of the Directors: Capital Management' on page 3.

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

(d) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions.

There are no accounting policies or estimates that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policies applied, which involve a high degree of judgement and estimation.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the impact of the COVID-19 outbreak, together with future projections of profitability, cash flows and capital resources.

(f) Ibor transition

Following the announcement by the FCA in July 2017 that it will no longer persuade or require banks to submit rates for Libor after 2021, the UK market, along with the Bank of England Working Group on Sterling Risk-Free Reference Rates ('RFRWG') has been engaged with facilitating an orderly transition of the relevant Libors to their replacement rates, for example the Sterling Overnight Index Average ('Sonia') for sterling and the Secured Overnight Financing Rate ('SOFR') for US dollars.

We do not anticipate any significant impact on the company.

1.2. Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments is recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Non-interest income

The Company provides business processing and knowledge processing services on a cost plus mark-up basis. Revenue is recognised over the period when the services are rendered to the related companies. Revenue from business processing and knowledge processing services constitutes as a single performance obligation. Accordingly, the transaction price will be based on cost plus mark-up basis. No element of financing deemed present as the revenue are made with a credit term of 30 days. Dividend income is recognised when the right to receive a payment is established. This is usually the date when the shareholders approve the dividend for unlisted equity securities.

(b) Financial instruments measured at amortised cost

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectable, it is written off against trade receivables and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited to the income statement.

Accruals and other financial liabilities

The amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Financial liabilities

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

(c) Employee compensation and benefits

Share-based payments

The Company 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.

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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.

(d) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

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

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

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

(e) 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 are stated at cost less any impairment losses and depreciation calculated on a straight-line basis to write-off the assets over their useful lives, which are generally between 5 years and 20 years.

The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition shall be included in the profit or loss when the item is derecognised. The gains or loss shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Gains shall not be classified as revenue.

Any consideration received on disposal is recognised initially at its fair value. If the payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable.

(f) Called up share capital

Financial instruments issued are generally classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(g) 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.

1.3 Correction of prior period misstatement

In 2019, it was identified that the amounts relating to augmentation payments for the defined benefit scheme had been recognised incorrectly in 2017. As a consequence the defined benefit obligation at 31 December 2017 was overstated by £63m, associated deferred tax asset understated by £11m and retained earnings understated by £52m.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

| | 2018 £'000 | Increase/(decrease) £'000 | 2018 £'000 (Restated*) |
|---|----------------|------------------------------|------------------------------|
| Statement of Comprehensive income (extract) | | | |
| Profit for the year | 191,184 | — | 191,184 |
| Actuarial Gains and losses on defined benefit plans | | | |
| - before income taxes | (2,129) | 598 | (1,531) |
| - income taxes | 362 | (102) | 260 |
| Other comprehensive income for year | 189,417 | 496 | 189,913 |

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| | 2018 £'000 | Increase/(decrease) £'000 | 2018 £'000 (Restated*) |
|-------------------------------------|----------------|------------------------------|------------------------------|
| Balance Sheet (extract) | | | |
| Assets | | | |
| Retirement benefit surplus | — | 29,716 | 29,716 |
| Deferred tax assets | 63,578 | (10,867) | 52,711 |
| Total assets | 63,578 | 18,849 | 82,427 |
| Liabilities | | | |
| Retirement benefit deficit | 34,210 | (34,210) | — |
| Total liabilities | 34,210 | (34,210) | — |
| Equity | | | |
| Called up share capital | 20,000 | — | 20,000 |
| Share premium account | 135,000 | — | 135,000 |
| Retained earnings | 175,204 | 53,059 | 228,263 |
| Total equity | 330,204 | 53,059 | 383,263 |
| Total liabilities and equity | 364,414 | 18,849 | 383,263 |

| | 2018 £'000 | Increase/(decrease) £'000 | 2018 £'000 (Restated*) |
|---|------------------|------------------------------|------------------------------|
| Cash Flow (extract) | | | |
| Cash flows from operating activities : | | | |
| Profit before tax | 237,095 | — | 237,095 |
| Change in operating liabilities | (552,898) | (598) | (552,300) |
| Change in retirement benefit asset | (7,486) | 598 | (8,084) |
| Net cash generated from operating activities | (323,289) | — | (323,289) |

| | Called up share capital £'000 | Share Premium £'000 | Retained earnings/ (Accumulated losses) £'000 | Increase/ (decrease) £'000 | Retained earnings/ (Accumulated losses) £'000 (Restated*) | Total equity £'000 (Restated*) |
|---|-------------------------------------|------------------------|---|----------------------------------|--|--------------------------------------|
| Statement of change in equity (Extract) | | | | | | |
| At 1 Jan 2018 | 20,000 | — | 14,964 | 52,563 | 67,527 | 87,527 |
| Profit for the year | — | — | 191,184 | — | 191,184 | 191,184 |
| - actuarial losses on defined benefit plans | — | — | (1,767) | 496 | (1,271) | (1,271) |
| Total comprehensive income for the year | — | — | 189,417 | 496 | 189,913 | 189,913 |
| Proceeds from shares issued/new shares issued | — | 135,000 | — | — | — | 135,000 |
| Dividends to shareholders | — | — | (30,000) | — | (30,000) | (30,000) |
| Net impact of equity-settled share-based payments | — | — | 823 | — | 823 | 823 |
| At 31 Dec 2018 | 20,000 | 135,000 | 175,204 | 53,059 | 228,263 | 383,263 |

2 Other operating income

Other operating income is earned from diverse range of services provided by the Company to its customers.

Operating income of £4,752m (2018: £4,008m) as shown in the income statement comprise fees charged to other group undertakings for its services.

3 Employee compensation and benefits

Total employee compensation

| | 2019 £'000 | 2018 £'000 |
|---|------------------|------------------|
| Wages and salaries including share-based payments | 951,737 | 821,747 |
| Social security costs | 104,878 | 103,625 |
| Post-employment benefits | 109,862 | 96,432 |
| Year ended 31 Dec | 1,166,477 | 1,021,804 |

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Full-time number of persons employed by the Company during the year

| | 2019 | 2018 |
|--------------------------------------|---------------|---------------|
| Retail Banking and Wealth Management | 1,818 | 1,637 |
| Commercial Banking | 713 | 915 |
| Global Banking and Markets | 1,805 | 1,788 |
| Global Private Banking | 40 | 51 |
| Corporate Centre | 7,320 | 7,111 |
| Year ended 31 Dec | 11,696 | 11,502 |

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

| | 2019 | 2018 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Restricted share awards | 13,291 | 12,404 |
| Savings-related and other share award option plans | 7,495 | 1,643 |
| Year ended 31 Dec | 20,785 | 14,047 |

Pension plans

The Company operates defined contributions and defined benefit pension plans covering all the Company's full-time employees.

Key actuarial assumptions for the principal plan

Guaranteed Minimum Pension ('GMP') Equalisation

On 26 October 2018, the High Court of Justice of England and Wales issued a judgement in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Bank plc and others as defendants regarding the rights of men and women to equal treatment in relation to their benefits from certain pension schemes.

The judgement concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to GMP benefits. The judgement also provided comments on the method to be adopted in order to equalise benefits, on the period during which a member can claim in respect of previously underpaid benefits, and on what should be done in relation to benefits that have been transferred into, and out of, the relevant schemes.

We estimated the financial effect of equalising benefits in respect of GMPs, and any potential conversion of GMPs into non-GMP benefits, to be an approximate 0.9% decrease in the plan's liabilities, or £8.6m on the IAS 19 basis as at 31 December 2018. This was recognised as a past service cost in the income statement. The estimate was performed based on Method C2, which compares the accumulated benefits, with interest, payable to a member on their 'own sex' and an 'opposite sex' basis and each year pays the amount necessary to ensure the higher of the two accumulated amounts has been paid.

The Company determines the discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of the current average yield of high quality (AA rated or equivalent) debt instruments, with maturities consistent with those of the defined benefit obligations.

| Year | Discount rate | Inflation rate | Rate of increase for pensions | Rate of pay increase |
|-----------------------|---------------|----------------|-------------------------------|----------------------|
| | % | % | % | % |
| At 31 Dec 2019 | 2.00 | 3.10 | 2.90 | 3.65 |
| At 31 Dec 2018 | 2.80 | 3.40 | 3.10 | 3.65 |

The mortality tables and average life expectancy at age - for the principal plan

| Mortality table | Life expectancy at age 65 for a male member currently: | | Life expectancy at age 65 for a female member currently: | | |
|-----------------|--|---------|--|---------|-------|
| | Aged 65 | Aged 50 | Aged 65 | Aged 50 | |
| At 31 Dec 2019 | SAPS S2 ¹ | 28.30 | 29.30 | 27.60 | 28.80 |
| At 31 Dec 2018 | SAPS S2 ¹ | 23.70 | 24.60 | 23.10 | 24.20 |

¹ Adjusted SAPS S2 with CMI_2017 improvements (2016: CMI_2016 improvements) and a 1.25 per cent long-term annual improvement.

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Actuarial assumption sensitivities

The discount rate is sensitive to changes in market conditions arising during the reporting year. The mortality rates used are sensitive to experience from the plan member profile. The following table shows the effect of changes in these and the other key assumptions on the principal plan:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Discount rate | | |
| Change in pension obligation at year end from a 25bps increase | (14) | (13) |
| Change in pension obligation at year end from a 25bps decrease | 15 | 14 |
| Change in following year pension cost from 25bps increase | — | — |
| Change in following year pension cost from 25bps decrease | — | — |
| Rate of inflation | | |
| Change in pension obligation at year end from a 25bps increase | 12 | 5 |
| Change in pension obligation at year end from a 25bps decrease | (27) | (5) |
| Change in following year pension cost from 25bps increase | — | — |
| Change in following year pension cost from 25bps decrease | (1) | — |
| Rate of increase for pensions in payment and deferred pensions | | |
| Change in pension obligation at year end from a 25bps increase | (19) | (7) |
| Change in pension obligation at year end from a 25bps decrease | (6) | 5 |
| Change in following year pension cost from 25bps increase | — | — |
| Change in following year pension cost from 25bps decrease | — | — |
| Rate of pay increase | | |
| Change in pension obligation at year end from a 25bps increase | 31 | 19 |
| Change in pension obligation at year end from a 25bps decrease | (31) | (18) |
| Change in following year pension cost from 25bps increase | 1 | 1 |
| Change in following year pension cost from 25bps decrease | (1) | (1) |
| Mortality | | |
| Change in pension obligation from each additional year of longevity assumed | 13 | 17 |

Defined benefit pension plans

Net liability under defined benefit pension plans

| | Fair value of plan assets £'000 | Present value of defined benefit obligations £'000 | Net benefit asset/(liability) £'000 |
|---|------------------------------------|---|--|
| Net defined benefit asset at 1 January 2019 | 414,083 | (384,367) | 29,716 |
| Service cost | — | (53,886) | (53,886) |
| - current service cost | — | (11,336) | (11,336) |
| - past service cost | — | (42,550) | (42,550) |
| Net interest cost on the net defined benefit liability | 11,732 | (12,497) | (765) |
| Re-measurement effects recognised in other comprehensive income | 33,393 | (23,020) | 10,373 |
| - return on plan assets (excluding interest income) | 33,393 | — | 33,393 |
| - actuarial gains | — | (23,020) | (23,020) |
| Transfer payments | (188,500) | 157,093 | (31,407) |
| Contributions by employer | 62,429 | — | 62,429 |
| Benefits paid | (4,238) | 4,238 | — |
| Administrative cost during the year | (6,133) | 3,778 | (2,355) |
| At 31 Dec 2019 | 322,766 | (308,661) | 14,105 |

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| | Fair value of plan assets £'000 | Present value of defined benefit obligations £'000 (Restated*) | Net benefit asset/ (liability) £'000 |
|---|------------------------------------|---|--|
| Net defined benefit asset at 1 January 2018 | 382,846 | (361,214) | 21,632 |
| Service cost | — | (34,489) | (34,489) |
| - current service cost | — | (10,277) | (10,277) |
| - past service cost | — | (24,212) | (24,212) |
| Net interest cost on the net defined benefit asset/(liability) | 10,088 | (11,004) | (916) |
| Re-measurement effects recognised in other comprehensive income | (19,931) | 18,400 | (1,531) |
| - return on plan assets (excluding interest income) | (19,931) | — | (19,931) |
| - actuarial gains | — | 18,400 | 18,400 |
| Transfer payments | — | — | — |
| Contributions by employer | 47,692 | — | 47,692 |
| Benefits paid | (4,333) | 4,333 | — |
| Administrative cost during the year | (2,279) | (393) | (2,672) |
| At 31 Dec 2018 | 414,083 | (384,367) | 29,716 |

Fair value of plan assets by asset classes

| | 2019 | | | 2018 | | |
|----------------------------------|---------------------|---|--|---------------------|---|--|
| | Fair value £'000 | Quoted market price in active market £'000 | No quoted market price in active market £'000 | Fair value £'000 | Quoted market price in active market £'000 | No quoted market price in active market £'000 |
| Fair value of plan assets | 322,766 | 322,766 | — | 414,083 | 409,677 | 4,406 |
| Equities | 69,828 | 69,828 | — | 409,677 | 409,677 | — |
| Index linked | 123,702 | 123,702 | — | — | — | — |
| Fixed interest | 72,262 | 72,262 | — | — | — | — |
| Property | 21,154 | 21,154 | — | — | — | — |
| Other | 35,820 | 35,820 | — | 4,406 | — | 4,406 |

The actual return on plan assets for the year ended 31 December 2019 was a positive return £45.1m (2018: negative return of £9.8m). The Company expects to make £18.7m of normal contributions to defined benefit pension plan during 2020.

HSBC share award plans

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.

International Employee
Share Purchase Plan
(‘ShareMatch’)

- The plan was first introduced in Hong Kong in 2013 and now includes employees based in 25 jurisdictions.
- Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency.
- Matching awards are added at a ratio of one free share for every three purchased.
- Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

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Movement on HSBC share awards

| | 2019 Number (000s) | 2018 Number (000s) |
|---|--------------------------|--------------------------|
| Restricted share awards outstanding at 1 Jan | 2,829 | 3,278 |
| Additions during the year | 2,429 | 2,340 |
| Released during the year | (2,089) | (2,247) |
| Forfeited during the year | (94) | (108) |
| Transferred out during the year | (174) | (434) |
| Restricted share awards outstanding at 31 Dec | 2,901 | 2,829 |
| Weighted average fair value of awards granted (£) | 5.98 | 5.76 |

HSBC share option plans

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 (000's) | WAEP ¹ £ |
| Outstanding at 1 Jan 2019 | 19,733 | 4.87 |
| Granted during the year | 9,976 | 4.69 |
| Exercised during the year | (3,855) | 4.41 |
| Expired during the year | (3,906) | 5.43 |
| Transferred out during the year | (495) | 4.30 |
| Outstanding at 31 Dec 2019 | 21,454 | 4.77 |
| Weighted average remaining contractual life (years) | 2.74 | |

¹ Weighted average exercise price

| | Savings-related share options | |
|---|-------------------------------|------------------------|
| | Number (000's) | WAEP ¹ £ |
| Outstanding at 1 Jan 2018 | 22,562 | 4.44 |
| Granted during the year | 6,753 | 5.45 |
| Exercised during the year | (7,953) | 4.14 |
| Expired during the year | (1,708) | 4.88 |
| Transferred in during the year | 79 | 4.70 |
| Outstanding at 31 Dec 2018 | 19,733 | 4.87 |
| Weighted average remaining contractual life (years) | 5.83 | |

¹ Weighted average exercise price

4 Directors' emoluments

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

5 Auditors' remuneration

The amount incurred in the audit of these financial statements was £95k (2018: £95k). In the year additional services totalling £2.6m (2018: £6.3m) have been engaged via the Company.

The full disclosure requirements of non-audit fees is included within the consolidated group accounts for HSBC Holdings plc.

6 Tax

Tax expense

| | 2019 £'000 | 2018 £'000 |
|--|-----------------|-----------------|
| Current tax | | |
| UK Corporation tax | | |
| - For this year | 63,401 | 63,730 |
| - Adjustments in respect of prior years | (1,740) | (3,324) |
| - Withholding tax suffered | 17,490 | — |
| Total current tax | 79,151 | 60,406 |
| Deferred tax | | |
| - Origination and reversals of temporary differences | (8,061) | (17,104) |
| - Effects of changes in tax rates | (8) | 2,449 |
| - Adjustments in respect of prior years | (2,128) | 160 |
| Total deferred tax | (10,197) | (14,495) |
| Year ended 31 Dec | 68,954 | 45,911 |

The UK corporation tax rate applying to the Company was 19.00% (2018: 19.00%).

The Finance (No2) Act 2016 provided for a reduction in the main rate of UK corporation tax from 19% to 17% from 1 April 2020 and deferred tax is measured at that rate at the balance sheet date. In March 2020 legislation was enacted to reverse that reduction and maintain the rate at 19%. This is expected to give rise to an increase in the net deferred tax asset of approximately £8m in 2020.

Tax reconciliation

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

| | 2019 £'000 | (%) | 2018 £'000 | (%) |
|--|---------------|--------------|---------------|--------------|
| Profit before tax | 265,160 | | 237,095 | |
| Tax at 19% (2018: 19.00%) | 50,380 | 19.00 | 45,048 | 19.00 |
| Adjustments in respect of prior period liabilities | (3,872) | (1.46) | (3,164) | (1.33) |
| Permanent disallowables | 1,498 | 0.56 | — | — |
| Expenses not deductible | — | — | 1,404 | 0.59 |
| Impact of differently taxed overseas profits in overseas locations | 367 | 0.14 | 61 | 0.03 |
| Impact due to changes in tax rates | 3,106 | 1.17 | 2,449 | 1.03 |
| Share options | — | — | 113 | 0.05 |
| Local taxes and overseas withholding taxes | 17,490 | 6.60 | — | — |
| Other | (15) | (0.01) | — | — |
| Year ended 31 Dec | 68,954 | 26.00 | 45,911 | 19.37 |

7 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 £'000 | Share based payments £'000 | Other temporary differences £'000 | Total £'000 |
|-----------------------------------|---|----------------------------------|---|-----------------|
| At 1 Jan 2019 | (42,072) | (5,328) | (5,311) | (52,711) |
| Income statement charge | (13,689) | 374 | 5,416 | (7,899) |
| Equity statement credit | — | — | — | — |
| Other comprehensive income charge | — | — | — | — |
| Prior year adjustments | (2,312) | — | (10,682) | (12,994) |
| Other movements | — | 1,067 | 7,292 | 8,359 |
| At 31 Dec 2019 | (58,073) | (3,887) | (3,285) | (65,245) |
| At 1 Jan 2018 (Restated*) | (20,346) | (9,576) | (11,659) | (41,581) |
| Income statement charge | (21,975) | 359 | 6,961 | (14,655) |
| Equity statement credit/(expense) | — | 3,626 | — | 3,626 |
| Other comprehensive income credit | — | — | (362) | (362) |
| Prior year adjustments | 249 | 263 | (251) | 261 |
| Other movements | — | — | — | — |
| At 31 Dec 2018 | (42,072) | (5,328) | (5,311) | (52,711) |

8 Cash and cash equivalents

| | 2019 | 2018 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Amounts held with other group undertakings | 613,242 | 448,728 |
| At 31 Dec | 613,242 | 448,728 |

9 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.

| | Financial assets and (liabilities) at amortised cost | Total |
|--|--|--------------------|
| | £'000 | £'000 |
| At 31 Dec 2019 | | |
| Assets | | |
| Cash and cash equivalents | 613,242 | 613,242 |
| Trade and other receivables | 497,102 | 497,102 |
| Other assets | 165,185 | 165,185 |
| Total financial assets | 1,275,529 | 1,275,529 |
| Liabilities | | |
| Amount owed to other group companies | (546,320) | (546,320) |
| Financial liabilities due to group companies | (595,000) | (595,000) |
| Accruals | (490,832) | (490,832) |
| Share-based payment liabilities | (19,959) | (19,959) |
| Lease liabilities | (130,579) | (130,579) |
| Other liabilities | (197,608) | (197,608) |
| Total financial liabilities | (1,980,298) | (1,980,298) |

| | Financial assets and (liabilities) at amortised cost | Total |
|--|--|--------------------|
| | £'000 | £'000 |
| At 31 Dec 2018 | | |
| Assets | | |
| Cash and cash equivalents | 448,728 | 448,728 |
| Trade and other receivables | 652,822 | 652,822 |
| Other assets | 26,487 | 26,487 |
| Total financial assets | 1,128,037 | 1,128,037 |
| Liabilities | | |
| Amount owed to other group companies | (573,365) | (573,365) |
| Financial liabilities due to group companies | (595,000) | (595,000) |
| Accruals | (424,663) | (424,663) |
| Share-based payment liabilities | (20,832) | (20,832) |
| Lease liabilities | — | — |
| Other liabilities | (197,364) | (197,364) |
| Total financial liabilities | (1,811,224) | (1,811,224) |

10 Trade and other receivables

| | 2019 | 2018 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Amounts due from other group undertakings | 497,102 | 652,822 |
| At 31 Dec | 497,102 | 652,822 |

Amounts due from other group undertakings are unsecured, non-interest bearing and repayable on demand.

11 Property, plant and equipment

| | Equipment, fixtures and fittings £'000 | Freehold land and buildings £'000 | Leasehold land and buildings £'000 | Total £'000 |
|---------------------------------|---|---|--|------------------|
| Cost | | | | |
| At 1 Jan 2019 | 694,908 | 242,277 | 66,918 | 1,004,103 |
| Additions | 228,789 | 4,144 | 25,037 | 257,970 |
| Disposals | (254,609) | (2) | (5,501) | (260,111) |
| As at 31 Dec 2019 | 669,089 | 246,419 | 86,454 | 1,001,961 |
| Accumulated depreciation | | | | |
| At 1 Jan 2019 | (257,129) | (33,899) | (4,607) | (295,635) |
| Charge for the year | (169,700) | (9,010) | (8,382) | (187,092) |
| Disposals | 243,291 | (2) | 407 | 243,695 |
| As at 31 Dec 2019 | (183,539) | (42,911) | (12,583) | (239,032) |
| Net book value | | | | |
| As at 31 Dec 2019 | 485,550 | 203,508 | 73,871 | 762,929 |

| | Equipment, fixtures and fittings £'000 | Freehold land and buildings £'000 | Leasehold land and buildings £'000 | Total £'000 |
|---------------------------------|---|---|--|------------------|
| Cost | | | | |
| At 1 Jan 2018 | 301,630 | 202,311 | — | 503,941 |
| Additions | 406,760 | 40,012 | 67,127 | 513,899 |
| Disposals | (13,482) | (46) | (209) | (13,737) |
| As at 31 Dec 2018 | 694,908 | 242,277 | 66,918 | 1,004,103 |
| Accumulated depreciation | | | | |
| At 1 Jan 2018 | (140,614) | (26,382) | — | (166,996) |
| Charge for the year | (124,639) | (7,199) | (4,613) | (136,451) |
| Disposals | 8,124 | (318) | 6 | 7,812 |
| As at 31 Dec 2018 | (257,129) | (33,899) | (4,607) | (295,635) |
| Net book value | | | | |
| As at 31 Dec 2018 | 437,779 | 208,378 | 62,311 | 708,468 |

12 Intangible assets

| | 2019 £'000 | 2018 £'000 |
|---------------------|---------------|---------------|
| Cost | | |
| At 1 Jan | 50,584 | — |
| Additions | 68,444 | 50,584 |
| Disposal | (59,327) | — |
| As at 31 Dec | 59,701 | 50,584 |

13 Right-of-use assets

| | 2019 £'000 |
|---------------------------------|-----------------|
| Cost | |
| At 1 Jan | 93,354 |
| Additions | 47,634 |
| Disposals | (4,243) |
| As at 31 Dec | 136,745 |
| Accumulated depreciation | |
| At 1 Jan | (1,015) |
| Charge for the year | (17,809) |
| As at 31 Dec | (18,824) |
| Net book value | |
| As at 31 Dec | 117,921 |

Leases relates to properties used by the company in its normal course of business.

Balances included within other assets in balance sheet.

14 Accruals, deferred income and other liabilities

| | 2019 £'000 | 2018 £'000 |
|---------------------------------------|------------------|------------------|
| Accruals | 490,832 | 424,663 |
| Share-based payment liabilities | 19,959 | 20,832 |
| Amounts owed to other group companies | 546,320 | 573,365 |
| Lease Liabilities | 130,579 | — |
| Other liabilities | 197,608 | 197,364 |
| At 31 Dec | 1,385,298 | 1,216,224 |

Amounts due to other group undertakings are unsecured, non-interest bearing and repayable on demand.

15 Called up share capital

| | 2019 | | 2018 | |
|------------------------------------|-------------------|---------------|-------------------|---------------|
| | Number | £'000 | Number | £'000 |
| Issued, allotted and fully paid up | | | | |
| Ordinary shares of £1 each | 20,000,101 | 20,000 | 20,000,101 | 20,000 |
| As at 1 Jan and 31 Dec | 20,000,101 | 20,000 | 20,000,101 | 20,000 |

In 2019, no share was issued (2018: 1 share of £1 was issued for a total consideration of £135m).

16 Management of financial risk

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

Credit risk management

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

Within the overall framework of the HSBC Group policy, the Company has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

Balances are primarily with other companies within the HSBC group and have low credit risk.

Liquidity risk management

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

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

| | Carrying value £'000 | Contractual cash flows £'000 | On Demand £'000 | Due within 3 months £'000 | Due between 3-12 months £'000 | Due between 1-5 years £'000 | Due after 5 years £'000 |
|--|-------------------------|---------------------------------|--------------------|------------------------------|----------------------------------|--------------------------------|----------------------------|
| Amounts owed to parent undertakings | 595,000 | 674,614 | — | 3,422 | 12,030 | 659,162 | — |
| Accrued interest on loans from parent undertakings | 588 | 588 | — | 588 | — | — | — |
| Amounts due to other group undertakings | 546,320 | 546,320 | 546,320 | — | — | — | — |
| Accrued liabilities | 490,244 | 490,244 | 490,244 | — | — | — | — |
| Lease liabilities | 130,579 | 130,579 | — | 3,122 | 11,117 | 60,139 | 56,201 |
| Other liabilities | 197,608 | 197,608 | 197,608 | — | — | — | — |
| At 31 Dec 2019 | 1,960,339 | 2,039,953 | 1,234,172 | 7,132 | 23,147 | 719,301 | 56,201 |
| Amounts owed to parent undertakings | 595,000 | 630,379 | — | 3,786 | 371,089 | 255,504 | — |
| Accrued interest on loans from parent undertakings | 2,089 | 2,089 | — | — | 2,089 | — | — |
| Amounts due to other group undertakings | 573,365 | 573,365 | 573,365 | — | — | — | — |
| Accrued liabilities | 422,574 | 422,574 | 422,574 | — | — | — | — |
| Lease liabilities | — | — | — | — | — | — | — |
| Other liabilities | 197,364 | 197,364 | 197,364 | — | — | — | — |
| At 31 Dec 2018 | 1,790,392 | 1,825,771 | 1,193,303 | 3,786 | 373,178 | 255,504 | — |

Market risk management

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

During the current and previous year, the Company had minimal exposure to foreign exchange, primarily relating to the payment of costs in other currencies.

HSBC Global Services (UK) Limited

Interest rate risk

As at 31 December 2019, the Company was exposed to interest rate risk on its £595m loan, which is based on LIBOR. The table below sets out the effect on the future net interest income of an incremental 100 basis points parallel rise or fall in interest rates at the reporting date (floored to 0%). (2018: £595m loan interest rate risk).

| | 100 bps increase £'000 | 100 bps decrease £'000 |
|-------------------------------------|---------------------------|---------------------------|
| As at 31 Dec 2019 | | |
| Amounts due from parent undertaking | 5,950 | (5,950) |
| Total increase/(decrease) | 5,950 | (5,950) |
| As at 31 Dec 2018 | | |
| Amounts due from parent undertaking | 5,950 | (5,950) |
| Total increase/(decrease) | 5,950 | (5,950) |

17 Related party transactions

The Company's related parties include the parent, fellow subsidiaries, post-employment benefit plans for the Company's employees, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or significantly influenced by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and includes members of the Board of Directors.

The charge for the Director's services has been borne by another company for their services as they are employees of the group.

| | 2019 | | | | 2018 | | | |
|---|-------------------------------|-----------------------------|---|-----------------------------|-------------------------------|-----------------------------|---|-----------------------------|
| | Due to/from HSBC Holdings plc | | Due to/from subsidiaries of HSBC Holdings plc | | Due to/from HSBC Holdings plc | | Due to/from subsidiaries of HSBC Holdings plc | |
| | 31 Dec £'000 | Highest Balance £'000 | 31 Dec £'000 | Highest Balance £'000 | 31 Dec £'000 | Highest Balance £'000 | 31 Dec £'000 | Highest Balance £'000 |
| Assets | | | | | | | | |
| Amounts due from other group undertakings | 40,261 | 71,659 | 456,841 | 630,131 | 38,761 | 198,783 | 614,061 | 1,809,333 |
| Cash and cash equivalents - balances with HSBC undertakings | — | — | 613,242 | 717,332 | — | — | 448,728 | 750,935 |
| Total related party assets at 31 Dec | 40,261 | 71,659 | 1,070,083 | 1,347,463 | 38,761 | 198,783 | 1,062,789 | 2,560,268 |
| Liabilities | | | | | | | | |
| Amounts owed to other group undertakings | 223,342 | 247,170 | 322,978 | 498,082 | 250,886 | 250,886 | 322,479 | 1,024,258 |
| Financial liabilities due to group undertakings | 595,000 | 595,000 | — | — | 595,000 | 595,000 | — | — |
| Total related party liabilities at 31 Dec | 818,342 | 842,170 | 322,978 | 498,082 | 845,886 | 845,886 | 322,479 | 1,024,258 |

All income shown within interest income on the face of the income statement is generated from transactions from group undertakings. The outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparts. The average credit period is 30 days

18 Parental 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 Holdings plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Group Services Limited. All companies are registered in England and Wales.

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

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

19 Events after the balance sheet date

Since early 2020, the epidemic of Coronavirus Disease 2019 ('the COVID-19 outbreak') has spread across China and other countries, and it has affected business and economic activities to some extent. The Company expects to increase staff costs, purchase more electronic equipment and incur additional maintenance costs in the year 2020 to ensure daily operations of the Company. There is also uncertainty on whether the Company's overseas business will be affected. Up to the date on which this set of financial statements were authorised for issue, the Company is still unable to estimate the concrete financial impact related to COVID-19 outbreak, and will pay close attention to the development of the COVID-19 outbreak and take relevant measures.