Assetfinance December (F) Limited
Registered No: 957327

Financial Statements for the year ended 31 December 2016

HSBC

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Contents

Strategic Report

Principal activities

The principal activity of Assetfinance December (F) Limited (the "Company") is to lease assets to third party lessees for an agreed term under finance and operating lease arrangements. No change in the Company's activities is anticipated.

The Company is a limited company domiciled and incorporated in England and Wales.

Review of the Company's business

During the year, the Company wrote new business and continued the leasing transactions written in previous years.

Where relevant, other group undertakings, HSBC Asset Finance (UK) Limited and HSBC Equipment Finance (UK) Limited, provide agency services to the Company. An appropriate management fee is charged accordingly. The services provided include seeking new business, negotiating and agreeing terms and arranging the execution of all lease documents on behalf of the Company, as well as maintaining accurate accounting and other records such as borrowing funds and settlement of all invoices relating to the services.

The business is funded principally by another group undertaking through borrowing. The Company has no employees. Services required are provided by fellow HSBC Group companies.

Performance

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

On 8 December 2016, all of the remaining finance lease agreements in another group undertaking, Assetfinance Limited, were transferred to the Company. All of the lease agreements were in their secondary period and had no carrying value. The consideration paid for the disposal was nil, being the net asset value at the date of transfer.

UK corporation tax rates are being reduced and details of the changes are set out in notes 8 and 9 to the financial statements.

Key performance indicators

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

Principal risks and uncertainties

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks are set out in note 19 of the financial statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union with the process of leaving the EU ('Brexit') commencing on 29 March 2017. The ultimate economic impact of Brexit is currently uncertain and will depend on the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime, this uncertainty is expected to result in volatility in respect of the principal risks affecting the Company. However this is not expected to have a material impact on the results or net assets of the Company given the nature of the Company's transactions, counterparties and available security.

Signed on behalf of the Board

B Bulford
Director

Dated: 21 September 2017

Registered office
8 Canada Square
London
E14 5HQ

Directors

The Directors who served during the year were as follows:

Name	Resigned
B Bulford	
M Harris	
N Subramanian	25 January 2017

On 25 January 2017, R I McElroy was appointed as a Director of the Company.

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

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016 (2015: £nil).

Significant events since the end of the financial year

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

Future developments

No change in the Company's activities is expected.

Going concern basis

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

Financial risk management

The principal financial risks and uncertainties facing the Company are set out in the Strategic Report.

Capital management

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

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

Disclosure of information to auditor

Each person who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 7, is made with a view to distinguish the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are responsible for preparing, in accordance with applicable law and regulations, a Strategic Report, a Directors' Report 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 Company'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 Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the 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.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Signed on behalf of the Board

B Bulford
Director

Dated: 21 September 2017

Registered office
8 Canada Square
London
E14 5HQ

Independent Auditors' Report to the Members of Assetfinance December (F) Limited

Report on the financial statements

Our opinion
In our opinion, Assetfinance December (F) Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss 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.

What we have audited
The financial statements, included within the Financial Statements (the 'Annual Report'), comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Andrew Batty (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham,

Dated: 22 September 2017

Income statement for the year ended 31 December 2016

	Notes	2016 £	2015 £
Interest income	2	**1,456,917**	2,101,766
Interest expense		**(713,343)**	(660,869)
Net interest income		**743,574**	1,440,897
Other operating income	3	**1,783,145**	870,814
Net operating income before loan impairment charges and other credit risk provision		**2,526,719**	2,311,711
Loan impairment charges and other credit risk provisions		**812**	22,982
Net operating income		**2,527,531**	2,334,693
General and administrative expense	5	**(1,515,630)**	(840,271)
Total operating expenses		**(1,515,630)**	(840,271)
Operating profit		**1,011,901**	1,494,422
Profit before tax		**1,011,901**	1,494,422
Tax expense	8	**(1,438,629)**	(1,019,514)
(Loss)/profit for the year		**(426,728)**	474,908

The accounting policies and notes on pages 12 to 28 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2016

There has been no comprehensive income or expense other than the loss for the year as shown above (2015: £nil).

Statement of financial position as at 31 December 2016

	Notes	2016	2015	2014
		£	£	£
Assets				
Trade and other receivables	10	**18,221,322**	29,547,118	45,142,203
Current tax asset		**-**	2,667,136	-
Property, plant and equipment	12	**16,297,549**	9,911,653	2,504,408
Deferred tax asset	9	**11,273,050**	10,469,942	14,156,592
Total assets		**45,791,921**	52,595,849	61,803,203
Liabilities and equity				
Liabilities				
Trade and other payables	13	**39,312,874**	47,942,234	56,732,333
Accruals, deferred income and other liabilities		**125,053**	114,630	74,580
Current tax liabilities		**2,241,737**	-	932,213
Total liabilities		**41,679,664**	48,056,864	57,739,126
Equity				
Called up share capital	14	**2,500,000**	2,500,000	2,500,000
Retained earnings		**1,612,257**	2,038,985	1,564,077
Total equity		**4,112,257**	4,538,985	4,064,077
Total equity and liabilities		**45,791,921**	52,595,849	61,803,203

The notes on pages 12 to 28 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 21 September 2017 and were signed on its behalf by:

B Bulford
Director
Company Registration No: 957327

Statement of cash flows for the year ended 31 December 2016

	Notes	2016	2015
		£	£
Cash flows from operating activities			
Profit before tax		**1,011,901**	1,494,422
Adjustments for:			
- non cash items included in profit before tax	15	**1,337,436**	649,152
- change in operating assets		**11,326,604**	15,618,067
- change in operating liabilities		**10,423**	(1,715,921)
- tax received/(paid)		**2,667,136**	(932,213)
Net cash generated from operating activities		**16,353,500**	15,113,507
Cash flows from investing activities			
Purchase of property, plant and equipment		**(7,941,740)**	(8,109,379)
Proceeds from the sale of property, plant and equipment		**217,600**	30,000
Net cash used in investing activities		**(7,724,140)**	(8,079,379)
Cash flows from financing activities			
Proceeds from borrowing		**(8,629,360)**	(7,034,128)
Net cash used in financing activities		**(8,629,360)**	(7,034,128)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents brought forward		-	-
Cash and cash equivalents carried forward		-	-

The accounting policies and notes on pages 12 to 28 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital	Retained earnings	Total
	£	£	£
2016			
At 1 January 2016	**2,500,000**	**2,038,985**	**4,538,985**
Loss for the year	-	**(426,728)**	**(426,728)**
Total comprehensive expense for the year	-	**(426,728)**	**(426,728)**
At 31 December 2016	**2,500,000**	**1,612,257**	**4,112,257**

	Called up share capital	Retained earnings	Total
	£	£	£
2015			
At 1 January 2015	2,500,000	1,564,077	4,064,077
Profit for the year	-	474,908	474,908
Total comprehensive income for the year	-	474,908	474,908
At 31 December 2015	2,500,000	2,038,985	4,538,985

The notes on pages 12 to 28 form an integral part of these financial statements.

Total Equity is wholly attributable to equity shareholders.

1 Basis of preparation and significant accounting policies

A Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 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 2016

There were no new standards applied during the year ended 31 December 2016. During 2016, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Company.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs in the 'Annual Improvements to IFRSs 2012-2014' and in a series of stand-alone amendments, one of which has not yet been endorsed for use in the EU. The Company has not early adopted any of the amendments effective after 31 December 2016, and it expects they will have an immaterial impact, when adopted, on the financial statements of the Company.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9 and IFRS 15 have been endorsed for use in the EU and IFRS 16 has not yet been endorsed.

IFRS 9 'Financial Instruments'
In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement
The classification and measurement of financial assets will depend on how these are managed (the Company's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on an assessment of financial assets performed to date and expectations around changes to balance sheet composition, the Company expects that the overall impact of any change will not be significant.

For financial liabilities designated to be measured at fair value, gains or losses relating to changes in the Company's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an 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 in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge will tend to be more volatile. IFRS 9 will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives. The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The Company is assessing the impact that the impairment requirements will have on the financial statements.

The joint Global Risk and Global Finance IFRS 9 Implementation Programme for HSBC group companies continues to progress with the documentation of Group accounting policy, the development of operating and system target operating models and the development, build and testing of risk modelling methodologies for the calculation of impairment nearing completion. HSBC group intends to perform a parallel run during the second half of 2017 to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Company intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Financial Statements 2017. Until reliable estimates of the impact are available, particularly on the interaction with the regulatory capital requirements, further information on the expected impact on the financial position cannot be provided.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Company has assessed the impact of IFRS 15 and expects that the standard will have no significant effect, when applied, on the financial statements of the Company.

IFRS 16 'Leases'
In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The Company is currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of these financial statements.

(c) Presentation of information

The functional currency of the Company is Sterling, which is also the presentation currency of the financial statements of the Company. The financial statements have been prepared on the historical cost basis.

(d) Changes to the presentation of the Financial Statements and Notes on the Financial Statements

The Company has changed its statement of financial position from the current/non-current to the liquidity basis of presentation and also changed the classification of certain items in the statement of financial position and the income statement in order to make the financial statements and notes thereon more reliable and relevant by adopting the presentation format of its intermediate parent, HSBC Bank plc, and other HSBC Group entities. For this year of transition, the statement of financial position includes two years of prior year comparatives.

In order to make the financial statements and notes thereon easier to understand, the Company has changed the location and the wording used to describe certain accounting policies within the notes, removed certain immaterial disclosures and changed the order of certain sections.

In applying materiality to financial statement disclosures, we consider both the amount and nature of each item. The main changes to the presentation of the financial statements and notes thereon in 2016 are as follows:

Note 1B Summary of significant accounting policies : accounting policies have been placed, wherever possible, within the relevant Notes on the financial statements and the changes in the wording are intended to more clearly set out the accounting policies. These changes in the wording do not represent changes in accounting policies.

(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 listed below as the critical accounting estimates and judgements, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of these Financial Statements. Management's selection of the Company's accounting policies which contain critical estimates and judgements is listed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

- Impairment of Trade and other receivables : refer to Note 1 B(d)
- Impairment of Property, plant and equipment : refer to Note 12

B Significant accounting policies

(a) Interest income and expense

Interest income and expense for all financial instruments are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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

(b) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of the assets, but not necessarily legal title, are classified as finance leases. They are recorded at an amount equal to the net investment in the lease less any impairment provisions, within finance lease receivables.

The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. The difference between the gross investment in the lease and the net investment in the lease is recorded as unearned finance income.

Income from finance leases is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Initial direct costs incurred in arranging the lease, less any fee income related to the lease, are included in the initial measurement of the net investment.

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates.

All other leases are classified as operating leases. Income from operating leases is recognised on a straight-line basis over the lease term.

(c) Financial assets and liabilities

(i) Trade and other receivables

These include trade and other receivables originated by the Company which are not classified either as held for trading or designated at fair value. Other than finance lease receivables, they are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the receivables are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses. Trade and other receivables include finance lease receivables. See Note 1B(b) for the accounting policy for finance lease receivables.

(ii) 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 provisions 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.

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

(d) Impairment of financial assets

Losses for impaired receivables are recognised promptly when there is objective evidence that impairment of a receivable or portfolio of receivables has occurred. Impairment allowances are calculated on individual receivables and on groups of receivables assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired receivables on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a receivables at its original effective interest rate, and comparing the resultant present value with the receivable's current carrying amount.

Collectively assessed impairment losses are calculated on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified.

Financial assets are written off to the extent that there is no realistic prospect of recovery.

(e) Fee and commission income

Income earned on the execution of a significant act is recognised as revenue when the act is completed. Income earned from the provision of services is recognised as revenue as the services are provided and income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

(f) Statement of cash flows

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

(g) Determination of fair value

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

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

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

2 *Operating Profit*

Operating profit is stated after the following items of income and expense.

	2016	2015
	£	£
Interest income		
Finance lease income	1,456,917	2,101,766
Profit on disposal of property, plant and equipment	81,954	26,451

3 Other operating income

	2016	2015
	£	£
Operating lease income	1,783,145	870,814
Total other operating income	1,783,145	870,814

4 Employee compensation and benefits

The Company has no employees and hence no staff costs (2015: £nil).

5 General and administrative expense

Administrative expenses include £177,382 (2015: £168,140) in respect of group management charges payable to another group undertaking.

6 Auditors' remuneration

Certain expenses including auditors' remuneration have been borne by a fellow group undertaking and are therefore not charged in arriving at the profit before taxation. The auditors' remuneration borne on behalf of the Company amounted to £4,042 (2015: £2,957). There were no non-audit fees incurred during the year (2015: £nil).

7 Remuneration of Directors

No director received any fees or emoluments from the Company during the year (2015: £nil). The Directors are employed by other companies within the HSBC Group and consider that their services to the Company are incidental to their other responsibilities within the HSBC Group.

8 Tax

Accounting policy

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

Tax charged to the income statement

	2016	2015
	£	£
Current tax		
UK Corporation tax		
- for this year	**2,241,737**	(2,667,136)
Total current tax	**2,241,737**	(2,667,136)
Deferred tax		
Origination and reversal of temporary differences	**(2,039,357)**	2,969,706
Effect of changes in tax rates	**1,236,249**	716,944
Total deferred tax	**(803,108)**	3,686,650
Total tax charged to income statement	**1,438,629**	1,019,514

The UK corporation tax rate applying to the Company was 20.00% (2015: 20.25%).

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 and to 18% with effect from 1 April 2020. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned.

The rate reduction to 17% was enacted during the period and has therefore been taken into account in the calculation of the UK related deferred tax balances as these balances will materially reverse after 1 April 2020.These reductions in the corporation tax rate were enacted in the Finance (No2) Act 2016.

Tax reconciliation

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

	2016	**Percentage of overall profit before tax %**	2015	Percentage of overall profit before tax %
	£		£	
Profit before tax	**1,011,901**		1,494,422	
Tax at 20.00% (2015: 20.25%)	**202,380**	**20.0**	302,570	20.2
Impact due to changes in tax rates	**1,236,249**	**122.2**	716,944	48.0
Total tax charged to income statement	**1,438,629**	**142.2**	1,019,514	68.2

9 Deferred tax

The following table shows the gross deferred tax assets/(liabilities) recognised in the statement of financial position and the related amounts recognised in the Income Statement:

	Other temporary differences	**Total**
	£	**£**
At 1 January 2016	**10,469,942**	**10,469,942**
Income statement credit	**803,108**	**803,108**
At 31 December 2016	**11,273,050**	**11,273,050**

	Other temporary differences £	Total £
At 1 January 2015	14,156,592	14,156,592
Income statement debit	(3,686,650)	(3,686,650)
At 31 December 2015	10,469,942	10,469,942

Leasing transactions temporary differences relate principally to accelerated capital allowance and depreciation.

A deferred tax asset of £11,273,050 (2015: £10,469,942) is recognised in respect of leasing transactions temporary differences between capital allowances and depreciation. The related tax benefit is expected to be realised through the creation of future taxable profits within the Company.

10 Trade and other receivables

	2016 **£**	2015 £
Finance lease receivables	**18,063,300**	29,114,126
Value added tax	**158,022**	432,992
Trade and other receivables	**18,221,322**	29,547,118

11 Finance lease receivables

	2016			2015		
	Total future minimum payments £	**Unearned finance income £**	**Present value £**	Total future minimum payments £	Unearned finance income £	Present value £
Lease receivables						
No later than one year	**8,591,487**	**(504,337)**	**8,087,150**	13,611,519	(237,042)	13,374,477
Later than one year but not later than five years	**10,773,149**	**(769,937)**	**10,003,212**	17,021,091	(1,483,439)	15,537,652
Later than five years	**-**	**-**	**-**	332,646	(89,217)	243,429
	19,364,636	**(1,274,274)**	**18,090,362**	30,965,256	(1,809,698)	29,155,558
Impairment provisions			**(27,062)**			(41,432)
Net investment in finance leases			**18,063,300**			29,114,126

In 2016, £nil (2015: £882) was payable as contingent rents and recognised in the Income statement.

The fair value of floating rate finance lease receivables is not considered to be significantly different from the carrying value.

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates. The fair value is not considered to be significantly different from the carrying value.

12 Property, plant and equipment

Operating lease assets are depreciated over the period of the relevant hirer's rental contract to an estimated residual value on a straight line basis.

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

	2016	2015
	£	£
Cost		
At 1 January	12,472,052	4,508,408
Additions	7,941,740	8,109,379
Disposals	(731,428)	(145,735)
As at 31 December	19,682,364	12,472,052
Accumulated depreciation		
At 1 January	2,560,399	2,004,000
Charge for the year	1,420,202	698,585
Disposals	(595,786)	(142,186)
As at 31 December	3,384,815	2,560,399
Net carrying amount 1 January	9,911,653	2,504,408
Net carrying amount 31 December	16,297,549	9,911,653

Future minimum lease payments receivable under non-cancellable operating leases:	2016	2015
	£	£
No later than one year	2,289,428	1,523,362
Later than one year and no later than five years	7,535,924	4,080,450
Later than five years	516,215	-
	10,341,567	5,603,812

The depreciation charge is included within General and administrative expenses in the income statement.

The Company leases equipment and vehicles to customers under operating lease agreements.

13 Trade and other payables

	2016 £	2015 £
Amounts due to other group undertakings	**39,312,874**	47,942,234
Trade and other payables	**39,312,874**	47,942,234

Amounts owed to other group undertakings have no fixed date for repayment and are therefore technically repayable on demand. They are accounted for as financial liabilities, measured at amortised cost and the fair value is not considered to be significantly different from the carrying value due to their short term nature.

14 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.

	2016 £	2015 £
Issued, allotted and fully paid up		
2,500,000 (2015: 2,500,000) **Ordinary shares of £1 each**	**2,500,000**	2,500,000

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

Accounting policy

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.

	2016 £	2015 £
Non-cash items included in profit and loss		
Depreciation, amortisation and impairment	**1,420,202**	698,585
Provisions (released)	**(812)**	(22,982)
(Profit)/ loss on disposal of property, plant and equipment	**(81,954)**	(26,451)
	1,337,436	649,152

16 Contingent liabilities and contractual commitments and guarantees

There were no contingent liabilities as at 31 December 2016 (2015: £nil).

17 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.

The following table analyses the carrying amount of financial assets and liabilities by category as defined in IAS 39 and by statement of financial position heading:

At 31 December 2016	Loans and receivables	Financial assets and liabilities at amortised cost	Total
	£	£	£
Assets			
Trade and other receivables	18,063,300	-	18,063,300
Total financial assets	18,063,300	-	18,063,300
Total non-financial assets			27,728,621
Total assets			45,791,921
Liabilities			
Customer accounts			
Trade and other payables	-	39,312,874	39,312,874
Accruals, deferred income and other liabilities	-	125,053	125,053
Total financial liabilities	-	39,437,927	39,437,927
Total non-financial liabilities			2,241,737
Total liabilities			41,679,664

At 31 December 2015	Loans and receivables	Financial assets and liabilities at amortised cost	Total
	£	£	£
Assets			
Trade and other receivables	29,114,126	-	29,114,126
Total financial assets	29,114,126	-	29,114,126
Total non-financial assets			23,481,723
Total assets			52,595,849
Liabilities			
Trade and other payables	-	47,942,234	47,942,234
Accruals, deferred income and other liabilities	-	114,630	114,630
Total financial liabilities	-	48,056,864	48,056,864
Total non-financial liabilities			-
Total liabilities			48,056,864

18 Fair value of financial instruments not carried at fair value

Except where disclosed elsewhere, there are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2016 and 31 December 2015.

19 Risk Management

The Company has exposure to the following types of risk arising from its use of financial instruments: credit risk, liquidity risk and market risk. Market risk includes interest rate risk and foreign exchange risk.

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

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

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

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

a) Credit risk management

Credit risk is the risk of financial loss if a customer or counter party fails to meet its obligations under a contract. It arises principally from finance lease receivables.

The Business manages credit risk for this Company as described above for risks generally.

Credit risk is managed within the overall framework of HSBC policy, with an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis. The Directors are responsible for the quality of the credit portfolios and follow a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products. Credit risk is managed at a group level by business sector, rather than in respect of individual undertakings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. No collateral is held in respect of finance lease receivables, although as title to the underlying assets remains with the lessor, these assets would be recoverable in case of default and it is anticipated that the sale proceeds would cover any shortfall in the amount recovered from the lessee.

There are no amounts classified as past due, as all finance lease receivables are paid to the Company from another group undertaking treasury function on the due dates until considered not collectable. Any amounts that are past due are reflected in the financial statements of that group undertaking.

Movement in impairment allowances on loans and receivables to customers

	2016 Individually assessed £	2016 Collectively assessed £	2015 Individually assessed £	2015 Collectively assessed £
At 1 January	14,402	27,030	12,000	38,012
Amounts written off	(13,559)	-	14,402	-
Charge/(credit) to income statement	1,714	(2,525)	(12,000)	(10,982)
As at 31 December	2,557	24,505	14,402	27,030

b) Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its cash flow requirements on a regular basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings.

The business manages credit risk for this Company as described above for risks generally.

The Company's assets are funded principally by borrowings from another group undertaking, which acts as a treasury function. This funding has no fixed repayment date and therefore is technically repayable on demand. The treasury function provides funds as required to finance the leases, at the same rates that currently apply to the relevant Company borrowings, for the term of the leases.

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

	On demand £	Due within 3 months £	Total £
At 31 December 2016			
Amounts owed to parent undertakings	39,312,874	-	39,312,874
Accruals, deferred income and other liabilities	-	125,053	125,053
	39,312,874	125,053	39,437,927

	On demand £	Due within 3 months £	Total £
At 31 December 2015			
Amounts owed to parent undertakings	47,942,234	-	47,942,234
Accruals, deferred income and other liabilities	-	114,630	114,630
	47,942,234	114,630	48,056,864

c) *Market risk management*

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will affect the Company's income. The Company is not exposed to significant foreign exchange risk on its financial assets or financial liabilities.

Interest rate risk

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

Analysis of fixed and floating rate financial assets:

	2016	2015
	£	£
Fixed rate	**18,063,300**	29,099,211
Floating rate	**-**	14,915
	18,063,300	29,114,126

20 Related party transactions

Transactions with other related parties.

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

	2016		2015	
	Highest balance during the year[1]	**Balance at 31 December[1]**	Highest balance during the year[1]	Balance at 31 December[1]
	£	**£**	£	£
Trade and other payables[1]	**46,451,373**	**39,312,874**	54,696,225	47,942,234

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.

	2016	2015
	£	£
Income statement		
Interest expense	**713,343**	660,869
General and administrative expense	**177,382**	168,140

Administrative expenses include £177,382 (2015: £168,140) in respect of group management charges.

21 Parent undertakings

The ultimate parent undertaking (which is the ultimate controlling party) and the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is HSBC Holdings plc, and the parent undertaking of the smallest such group is HSBC Bank plc. The immediate holding Company is HSBC Equipment Finance (UK) Limited. The result of the Company is included in the group financial statements of HSBC Bank plc and HSBC Holdings plc.

Copies of the group financial statements may be obtained from the following addresses:

HSBC Bank plc
8 Canada Square
London
E14 5HQ

HSBC Holdings plc
8 Canada Square
London
E14 5HQ

22 Events after the balance sheet date

There are no significant events after the balance sheet date.