

Assetfinance December (F) Limited

Registration No: 957327

**Annual Report and Financial Statements for the year
ended 31 December 2018**



**Annual Report and Financial Statements for the year ended
31 December 2018**

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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.

The Company is limited by shares.

Review of the Company's business

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

On 1 July 2018, the intermediate parent company changed from HSBC Bank plc to HSBC UK Bank plc in order to meet the regulatory ring-fencing requirements in accordance with the UK Financial Services (Banking Reform) Act 2013 and associated secondary legislation and regulatory rules.

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

Where relevant, another group undertaking, HSBC Equipment Finance (UK) Limited (prior to 1 July 2018, HSBC Asset Finance (UK) Limited), provides 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 Company has no employees. Services required are provided by fellow HSBC Group companies. The Company's principal stakeholder is its parent company.

Performance

The Company's results for the year under review are as detailed in the income statement shown on page 6 of these financial statements.

Key performance indicators

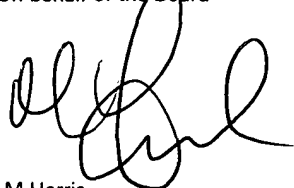
As the Company is managed as part of a global bank, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC UK Bank plc (prior to 1 July 2018, HSBC Bank plc). Ongoing review of the performance of the Company is carried out by comparing actual performance against annually set budgets.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Company are credit risk, market risk and liquidity risk. These risks, the exposure to such risks and management of risk are set out in Note 17 of the financial statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union ('EU') with the process of the UK leaving the EU commencing on 29 March 2017. The ultimate economic effect of the UK leaving the EU is currently uncertain and will depend upon the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime, this uncertainty is expected to result in volatility in respect of 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.

On behalf of the Board



M Harris
Director

26 September 2019

Registered office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

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

Name	Appointed	Resigned
B Bulford		25 April 2019
M Harris		
R I McElroy		29 March 2019
J E Rao	25 April 2019	

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017: nil).

Significant events since the end of the financial year

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

Future developments

No change in the Company's activities is expected.

Going concern basis

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

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 17 of the Notes on the financial statements.

Capital management

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

The Company defines capital as total shareholders' equity. It is 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.

Independent auditors

PricewaterhouseCoopers LLP ('PwC') is external auditor 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 auditor.

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 page 5, 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.

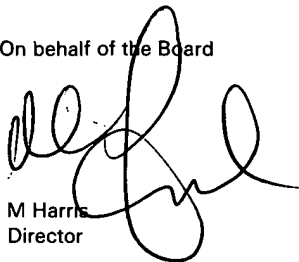
The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for safeguarding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



M Harris
Director

26 September 2019

Registered office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the independent auditors to the members of Assetfinance December (F) Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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.

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 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 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' responsibilities statement set out on page 3, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

26 September 2019

Financial statements

Income statement for the year ended 31 December 2018

	Notes	2018 £	2017 £
Interest income		305,740	382,834
Interest expense		(538,381)	(550,455)
Net interest income		(232,641)	(157,621)
Other operating income	3	4,890,617	3,325,811
Net operating income before loan impairment charges and other credit risk provision		4,657,976	3,168,190
Loan impairment(charge)/credit		(473)	802
Net operating income		4,657,503	3,168,992
General and administrative expenses	4	(5,924,329)	(2,321,048)
Operating (loss)/profit		(1,266,826)	847,944
(Loss)/profit before tax		(1,266,826)	847,944
Tax credit/(expense)	8	66,733	(270,404)
(Loss)/profit for the year		(1,200,093)	577,540

Statement of comprehensive income for the year ended 31 December 2018

All operations are continuing. There has been no comprehensive income or expense other than the loss for the year as shown above (2017: nil).

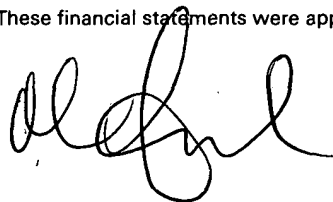
Balance sheet at 31 December 2018

Registration No: 957327

	Notes	2018 £	2017 £
Assets			
Trade and other receivables	12	5,566,311	11,455,838
Property, plant and equipment	14	26,715,177	27,483,422
Deferred tax assets	9	13,523,146	12,087,628
Total assets		45,804,634	51,026,888
Liabilities and equity			
Liabilities			
Trade and other payables	15	40,845,315	45,040,770
Accruals, deferred income and other liabilities		257,425	211,339
Current tax liabilities		1,368,785	1,084,982
Total liabilities		42,471,525	46,337,091
Equity			
Called up share capital	16	2,500,000	2,500,000
Retained earnings		833,109	2,189,797
Total equity		3,333,109	4,689,797
Total liabilities and equity		45,804,634	51,026,888

The accompanying notes on pages 10 to 22 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 September 2019 and signed on its behalf by:



M Harris
Director

Statement of cash flows for the year ended 31 December 2018

<i>Notes</i>	2018 £	2017 £
Cash flows from operating activities		
(Loss)/profit before tax	(1,266,826)	847,944
Adjustments for:		
Non-cash items included in profit before tax	5,592,092	2,167,123
Change in operating assets	5,889,055	6,766,286
Change in operating liabilities	46,086	86,286
Tax paid	(1,084,982)	(2,241,737)
Net cash generated from operating activities	9,175,425	7,625,902
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,979,970)	(13,379,298)
Proceeds from sale of property, plant and equipment	-	25,500
Net cash used in investing activities	(4,979,970)	(13,353,798)
Cash flows from financing activities		
Movements in inter-company funding	(4,195,455)	5,727,896
Net cash (used in)/generated from financing activities	(4,195,455)	5,727,896
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents brought forward	-	-
Cash and cash equivalents carried forward	-	-

Statement of changes in equity for the year ended 31 December 2018

	Called up share £	Retained earnings £	Total equity £
As at 31 Dec 2017	2,500,000	2,189,797	4,689,797
Impact on transition to IFRS 9	–	(156,595)	(156,595)
At 1 Jan 2018	2,500,000	2,033,202	4,533,202
(Loss)/profit for the year	–	(1,200,093)	(1,200,093)
Total comprehensive income for the year	–	(1,200,093)	(1,200,093)
At 31 Dec 2018	2,500,000	833,109	3,333,109

	Called up share capital £	Retained earnings £	Total equity £
At 1 Jan 2017	2,500,000	1,612,257	4,112,257
Profit for the year	–	577,540	577,540
Total comprehensive income for the year	–	577,540	577,540
At 31 Dec 2017	2,500,000	2,189,797	4,689,797

Notes on the financial statements

1 Basis of preparation and significant accounting policies

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

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

At 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018 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 2018

The Company has adopted the requirements of IFRS 9 'Financial Instruments' from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the Company has not restated comparatives. Adoption reduced net assets at 1 January 2018 by £156,595.

In addition, the Company has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which has had no effect on the financial statements of the Company.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2019, some of which have been endorsed for use in the EU. The Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

The IASB has published IFRS 16 'Leases'. IFRS 16 has been endorsed for use in the EU.

IFRS 16 'Leases'

IFRS 16 'Leases' has 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 ('ROU') asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. As the Company is in the position of lessor in all of its contracts, adoption is not expected to have a significant impact on the financial assets of the Company.

(c) Foreign currencies

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

(d) Presentation of information

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

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

(e) Critical accounting estimates and judgements

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

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

(f) Going concern

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

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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.

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

Non-interest income and expense

Fee income is earned from services provided by the Company to its customers and can be charged on a fixed or variable basis. Variable fees are recognised when all uncertainties are resolved. Fee income is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the act is completed.
- Income earned from the provision of services is recognised as revenue as the services are provided

(b) Valuation of financial instruments

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

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

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

(c) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, are measured at amortised cost. Such financial assets include loans and advances and trade and other receivables.

Financial assets

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

Finance lease receivables

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any impairment provisions.

The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. Initial direct costs incurred in arranging the lease, less any fee income related to the lease, are included in the initial measurement of the net investment.

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

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

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

Leases in their secondary rental period are held at nil value with income recognised at the contracted invoice date. The Directors consider these payments to represent a fee for the continued existence of the lease and therefore, as the Company has no additional performance obligations, recognise the income in full on the contracted date.

All other leases are classified as operating leases. See Note 1.2 (f) for the policy relating to Property, plant and equipment.

Trade and other payables

Amounts owed to other group undertakings represent financial liabilities and are included within trade and other payables. Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or

Assetfinance December (F) Limited

issue. Financial liabilities are recognised when the Company becomes party to the contractual provision of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled.

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

(d) Impairment of amortised cost financial assets

For the impairment of amortised cost financial assets within the scope of IFRS9, the Company has adopted the methodology as developed within the HSBC group and is detailed below.

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

Credit-impaired (stage 3)

The Company determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

Unimpaired and without significant increase in credit risk - (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, HSBC calculates ECL using three main components, a probability of default, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

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The ECL for stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC is exposed to credit risk.

Forward-looking economic inputs

HSBC group will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the consensus economic scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'outer' scenarios referred to as the Upside and Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the HSBC Group's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80% and the Upside and Downside scenarios 10% each, with the difference between the Central and outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecasts is 5 years for the central scenario. Upside and Downside scenarios use distributional forecasts for the first two years after which they converge to the central forecasts. The central forecast and spread between the Central and outer scenarios is grounded on the expected gross domestic product of the UK. This includes consideration of domestic economic factors as well as global economic events, the economic performance of other countries and the impact these can have on the gross domestic product of the UK. HSBC Group runs a global process which ensures that both domestic and international economic factors are considered in creating scenarios for the UK.

The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices, reflecting both domestic and international economic factors as appropriate.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

HSBC group recognises that the consensus economic scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in alternative scenarios and probability weightings being applied in arriving at the ECL.

Critical accounting estimates and judgements

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities. The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'upside scenarios' which have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive.

(e) Tax

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

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

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.

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Critical accounting estimates and judgements

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

(f) 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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included within the income statement.

Fee income and commission expense are allocated over the relevant period of the lease and included within other operating income.

Critical accounting estimates and judgements

Residual values are assessed on expectations of future market value over the economic life of the assets. Valuations are assessed by an in house RICS qualified valuer accounting for industry projections. The portfolio is reviewed regularly in order to monitor market conditions and the impact this has on market values.

(g) Called up share capital

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

(h) Cash and cash equivalents

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

(i) Statement of cash flows

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

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

(j) Accounting policies applicable prior to 1 January 2018

Impairment of trade and other receivables

Losses for impaired receivables are recognised promptly when there is objective evidence that impairment of a receivables or portfolio of receivables has occurred. Impairment allowances are calculated on individual receivables or on groups of receivables assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired receivables on the Balance sheet. Losses which may arise from future events are not recognised.

Impairment losses on individual receivables are calculated by discounting the expected future cash flows of a receivable, which includes expected future receipts of contractual interest, at the receivable's original effective interest rate and comparing the resultant present value with the receivable's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

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.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the receivable impairment allowance account accordingly. The write-back is recognised in the income statement.

2 Operating Profit

	2018 £	2017 £
Income		
Finance lease income	305,740	1,035,086
Profit/(loss) on disposal of property, plant and equipment	—	(6,500)

3 Other operating income

	2018	2017
	£	£
Operating lease income	4,254,473	2,683,559
Other operating income	636,144	642,252

4 General and administrative expenses

	2018	2017
	£	£
Group management charges payable to another group undertaking	176,114	153,123
Depreciation charges	5,748,215	2,161,425
Year ended 31 Dec	5,924,329	2,314,548

5 Employee compensation and benefits

The Company has no employees and hence no staff costs (2017: nil).

6 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2017: 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.

7 Auditors' remuneration

Certain expenses including auditors' remuneration have been borne by a fellow group undertaking and are therefore not charged in arriving at profit before taxation. The auditors' remuneration borne on behalf of the Company amounted to £4,000 (2017: £4,000).

There were no non-audit fees incurred during the year (2017: nil).

8 Tax

Tax credit

	2018	2017
	£	£
Current tax		
- For this year	1,368,785	1,084,982
Total current tax	1,368,785	1,084,982
Deferred tax		
- Origination and reversals of temporary differences	(1,609,392)	(921,782)
- Effects of changes in tax rates	169,410	107,596
- Adjustments in respect of prior years	4,464	(392)
Total deferred tax	(1,435,518)	(814,578)
Year ended 31 Dec	(66,733)	270,404

The UK corporation tax rate applying to the Company was 19 % (2017:19.25 %).

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. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020 and this was enacted in the Finance (No2) Act 2016 on 6 September 2016. This 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.

Tax reconciliation

	2018		2017	
	£	(%)	£	(%)
(Loss)/ Profit before tax	(1,266,826)		847,944	
Tax at 19.00% (2017: 19.25%)	(240,697)	19.0	163,200	19.2
Adjustments in respect of prior period liabilities	4,464	(0.4)	(392)	--
Expenses not deductible	90	--	--	--
Impact due to changes in tax rates	169,410	(13.4)	107,596	12.7
Year ended 31 Dec	(66,733)	5.2	270,404	31.9

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9 Deferred tax assets

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

	Other temporary differences	
	2018 £	2017 £
At 1 Jan 2018	12,087,628	11,273,050
Income statement credit	1,439,982	814,186
Prior year adjustments	(4,464)	392
At 31 Dec 2018	13,523,146	12,087,628

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

A deferred tax asset of £13,523,146 (2017: £12,087,628) is recognised in respect of leasing transactions temporary differences. The related tax benefit is expected to be realised through the offset of losses with future taxable profits within the Group.

10 Analysis of financial assets and liabilities by measurement basis

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

At 31 Dec 2018	Amortised cost £	Total £
Assets		
Trade and other receivables	5,183,136	5,183,136
Total financial assets	5,183,136	5,183,136
Total non-financial assets		40,621,498
Total assets		45,804,634
Liabilities		
Trade and other payables	40,845,315	40,845,315
Total financial liabilities	40,845,315	40,845,315
Total non-financial liabilities		1,626,210
Total liabilities		42,471,525

At 31 Dec 2017	Loans and receivables £	Financial assets and liabilities at amortised cost £	Total £
Assets			
Trade and other receivables	9,412,223	—	9,412,223
Total financial assets	9,412,223	—	9,412,223
Total non-financial assets			41,614,665
Total assets			51,026,888
Liabilities			
Trade and other payables	—	45,040,770	45,040,770
Total financial liabilities	—	45,040,770	45,040,770
Total non-financial liabilities			1,296,321
Total liabilities			46,337,091

11 Fair value of financial instruments not carried at fair value

There are no material differences between the carrying value and the fair value of the financial assets and liabilities as at 31 December 2018 and 31 December 2017.

12 Trade and other receivables

	Notes	2018 £	2017 £
Finance lease receivables	13	5,183,136	9,412,223
Value added tax		383,175	2,043,615
At 31 Dec		5,566,311	11,455,838

13 Finance lease receivables

	2018			2017		
	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	3,528,130	(191,130)	3,337,000	4,360,149	(299,099)	4,061,050
Later than one year but not later than 5 years	2,178,957	(154,098)	2,024,859	5,760,355	(382,922)	5,377,433
	5,707,087	(345,228)	5,361,859	10,120,504	(682,021)	9,438,483
Impairment provisions			(178,723)			(26,260)
Net investment in finance leases			5,183,136			9,412,223

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.

14 Property, plant and equipment

	Vehicles	
	2018 £	2017 £
Cost		
At 1 Jan	32,836,986	19,682,364
Additions	4,979,970	13,379,298
Disposals	-	(224,676)
As at 31 Dec	37,816,956	32,836,986
Accumulated depreciation		
At 1 Jan	5,353,564	3,384,815
Charge for the year	5,748,215	2,161,425
Disposals	-	(192,676)
As at 31 Dec	11,101,779	5,353,564
Net book value		
At 1 Jan	27,483,422	16,297,549
As at 31 Dec	26,715,177	27,483,422

Future minimum lease payments receivable under non-cancellable operating leases:

	2018 £	2017 £
Vehicles - No later than one year	4,706,730	4,125,647
Vehicles - Later than one year but not later than 5 years	11,732,794	12,444,041
Vehicles - Later than five years	1,177,172	1,677,271
Year ended 31 Dec	17,616,696	18,246,959

As at 31 December 2018, Residual values in respect of operating leases amounted to £14,219,520 (2017: £12,089,040). On the future disposal of the assets, the effect on net income from a 1% increase or decrease in depreciation curves applied to residual values would be an increase of £798,000 (2017: £120,890) or a decrease of £847,961 (2017: £120,890).

15 Trade and other payables

	2018 £	2017 £
Amounts owed to other group undertakings	40,845,315	45,040,770
At 31 Dec	40,845,315	45,040,770

16 Called up share capital

	2018		2017	
	Number	£	Number	£
Issued, allotted and fully paid up				
Ordinary shares of £1 each	2,500,000	2,500,000	2,500,000	2,500,000
As at 1 Jan and 31 Dec	2,500,000	2,500,000	2,500,000	2,500,000

17 Management of financial risk

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

Credit risk management

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

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

The management of the Company is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets. The Company's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

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

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

	Gross carrying/ nominal amount £	Allowance/Provision for ECL ¹ £
Total gross carrying amount on balance sheet	5,361,859	(178,723)
- corporate and commercial	5,361,859	(178,723)
At 31 Dec 2018	5,361,859	(178,723)

¹ The total ECL is recognised in the loss allowance for the financial asset unless the total CL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

The following table provides an overview of the Company's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

- Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

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

	Gross carrying/nominal amount			Allowance for ECL			ECL Coverage %		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	£	£	£	£	£	£	%	%	%
Finance lease receivables	1,864,104	2,808,380	689,375	(5,170)	(64,841)	(108,712)	(0.3)	(2.3)	(15.8)
At 31 Dec 2018	1,864,104	2,808,380	689,375	(5,170)	(64,841)	(108,712)	(0.3)	(2.3)	(15.8)

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from stage 1 to stage 2. Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. There are no amounts classified in stage 2 that have been identified as past due.

Reconciliation of allowances for trade and other receivables

	ECL allowance £
At 1 Jan 2018	182,855
ECL income statement charge for the period	473
Assets written off	(4,605)
At 31 Dec 2018	178,723
ECL income statement charge for the period	(473)
Total ECL income charge for the period	(473)

Maximum exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. No finance lease or other receivable is in arrears. No collateral is held in respect of finance lease receivables, although as title to the

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underlying assets remain with the lessor, these assets would be recoverable in case of default and it is anticipated that the sale proceeds would cover any shortfall in the amounts recovered from the lessee.

Reconciliation of gross exposure and allowances/provision for loans and advances to banks and customers including loan commitment and financial guarantee

The following disclosure provides a reconciliation of the Company's gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees.

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

	Non credit - impaired				Credit impaired		Total	
	Stage 1		Stage 2		Gross exposure	Allowance /provision for ECL	Gross exposure	Allowance /provision for ECL
	Gross exposure	Allowance /provision for ECL	Gross exposure	Allowance /provision for ECL				
	£	£	£	£	£	£	£	£
As at 01 Jan 2018	4,849,299	(27,492)	4,589,184	(155,363)	–	–	9,438,483	(182,855)
Transfer of financial instruments	(1,629,780)	9,870	440,329	15,537	1,189,451	(25,407)	–	–
- transfers from stage 1 to stage 2	(1,745,650)	11,805	1,745,650	(11,805)	–	–	–	–
- transfers from stage 2 to stage 1	115,870	(1,935)	(115,870)	1,935	–	–	–	–
- transfers to stage 3	–	–	(1,189,451)	25,407	1,189,451	(25,407)	–	–
- Net remeasurement of ECL arising from transfer of stage	–	1,651	–	(19,459)	–	–	–	(17,808)
Net new and further lending/(repayments)	255,836	3,860	(315,966)	5,783	(58,864)	–	(118,994)	9,643
Changes to risk parameters (model inputs)	(1,611,251)	2,337	(1,905,167)	88,661	(441,212)	(83,305)	(3,957,630)	7,693
Assets written off	–	4,604	–	–	–	–	–	4,604
At 31 Dec 2018	1,864,104	(5,170)	2,808,380	(64,841)	689,375	(108,712)	5,361,859	(178,723)

III. Credit quality

Credit quality of financial instruments

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

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

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

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

Quality classification definitions

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

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

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

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

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

Distribution of financial instruments by credit quality

	Gross carrying/notional amount						Allowance provision for ECL	Net
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total		
	£	£	£	£	£	£	£	£
Trade and other receivables	–	1,770,386	2,902,098	–	689,375	5,361,859	(178,723)	5,183,136
At 31 Dec 2018	–	1,770,386	2,902,098	–	689,375	5,361,859	(178,723)	5,183,136

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

	Gross carrying/notional amount						Allowance provision for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total		
	£'000	£'000	£'000	£'000	£'000	£'000		
Finance lease receivables	–	1,770,386	2,902,098	–	689,375	5,361,859	(178,723)	5,183,136
- stage 1	–	1,770,386	93,718	–	–	1,864,104	(5,170)	1,858,934
- stage 2	–	–	2,808,380	–	–	2,808,380	(64,641)	2,743,739
- stage 3	–	–	–	–	689,375	689,375	(109,712)	580,663
At 31 Dec 2018	–	1,770,386	2,902,098	–	689,375	5,361,859	(178,723)	5,183,136

Credit impaired loans

The Company determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default. If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit impaired.

Movement in impairment allowances on loans and receivables

	2017		
	Individually assessed	Collectively assessed	Total
	£	£	£
At 1 Jan	2,557	24,505	27,062
New allowances net of allowance releases	2,546	(3,348)	(802)
At 31 Dec	5,103	21,157	26,260
Impairment allowances % of loans and advances	–	–	–

Liquidity risk management

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

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

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

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

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	Due between 3-12 months		Due between 1-5 years		Due after 5 years	Total
			£	£	£	£		
Amount owed to other group undertakings	40,845,316	–	–	–	–	–	40,845,316	
At 31 Dec 2018	40,845,316	–	–	–	–	–	40,845,316	
Amount owed to other group undertakings	45,040,770	–	–	–	–	–	45,040,770	
At 31 Dec 2017	45,040,770	–	–	–	–	–	45,040,770	

Market risk management

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

Interest rate risk

Interest rate risk 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.

The Company is not exposed to foreign exchange risk on its financial assets or liabilities.

18 Related party transactions

Transaction with other related parties

Transactions detailed below include amounts due to other group undertakings

	2018		2017	
	Highest balance during the year £	Balance at 31 December £	Highest balance during the year £	Balance at 31 December £
Liabilities				
Trade and other payables	42,177,242	40,845,315	45,452,452	45,040,770
Income statement				
Interest expense			538,381	550,455
General and administrative expenses			176,114	153,123

Administrative expenses include £176,114 (2017: £153,123) in respect of group management charges.

In prior years and in the period up to 30 June 2018, the Company was funded principally by another group undertaking, HSBC Asset Finance (UK) Limited, through borrowing. From 1 July 2018, as a result of ring-fencing requirements, funding was provided by its immediate parent, HSBC Equipment Finance (UK) Limited. Consequently, the Trade and other payables balance as at 31 December 2017 relates to HSBC Asset Finance (UK) Limited and as at 31 December 2018, HSBC Equipment Finance (UK) Limited.

Interest expense and group management charges were charged by HSBC Asset Finance (UK) Limited up to 30 June 2018. From 1 July 2018, all amounts were charged by HSBC Equipment Finance (UK) Limited.

19 Effects of reclassification on adoption of IFRS 9

Reclassification of balance sheet as at 31 December 2017 and 1 January 2018

	IFRS 9 reclassification to							
	IAS 39 carrying amount at 31 Dec 2017	Other changes in classification	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount post reclassification	IFRS 9 re-measurement including expected credit losses	IFRS 9 carrying amount at 1 Jan 2018
IAS 39 measurement category	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets								
Trade and other receivables	Amortised cost	11,455,838	—	—	—	11,455,838	(156,595)	11,299,243
Property, plant and equipment	N/A	27,483,422	—	—	—	27,483,422	—	27,483,422
Deferred tax assets	N/A	12,087,628	—	—	—	12,087,628	—	12,087,628
Total assets		51,026,888	—	—	—	51,026,888	(156,595)	50,870,293

	IFRS 9 reclassification to							
	IAS 39 carrying amount at 31 Dec 2017	Other changes in classification	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount post reclassification	IFRS 9 re-measurement including expected credit losses	IFRS 9 carrying amount at 1 Jan 2018
IAS 39 measurement category	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities								
Trade and other payables	Amortised cost	45,040,770	—	—	—	45,040,770	—	45,040,770
Accruals, deferred income and other liabilities	Amortised cost	211,339	—	—	—	211,339	—	211,339
Current tax liabilities	N/A	1,084,982	—	—	—	1,084,982	—	1,084,982
Total liabilities		46,337,091	—	—	—	46,337,091	—	46,337,091

Assetfinance December (F) Limited

	IAS 39 carrying amount as at 31 Dec 2017 £'000	IFRS 9 reclassification £'000	Carrying amount post reclassification £'000	IFRS 9 remeasurement including expected credit losses £'000	Carrying amount at 1 Jan 2018 £'000
Equity					
Called up share capital	2,500,000	–	2,500,000	–	2,500,000
Retained earnings	2,189,797	–	2,189,797	(156,595)	2,033,202
Total equity	4,689,797	–	4,689,797	(156,595)	4,533,202

Reconciliation of impairment allowances under IAS 39 and provisions under IAS 37 to expected credit losses under IFRS 9

IAS 39 measurement category	Reclassification to			Remeasurement		Total
	Fair value through profit or loss £'000	Fair value through other comprehensive income £'000	Amortised cost £'000	Stage 3 £'000	Stage 1 & Stage 2 £'000	
Financial assets at amortised cost						
IAS 39 impairment allowances at 31 Dec 2017						26,260
Trade and other receivables			Amortised cost (Loans and receivable)		156,595	156,595
Expected credit loss allowances as at 31 Dec 2018						182,855

20 Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc which is the parent undertaking of the largest group to consolidate these financial statements. HSBC UK Bank plc is the parent undertaking of the smallest group to consolidate these financial statements. Prior to 1 July 2018, HSBC Bank plc was the parent undertaking of the smallest group to consolidate these financial statements. The immediate holding company is HSBC Equipment Finance (UK) Limited.

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

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

HSBC UK Bank plc
1 Centenary Square
Birmingham B1 1HQ
United Kingdom
www.hsbc.com

21 Events after the balance sheet date

There are no significant events after the balance sheet date.