HSBC UK Bank plc (formerly HSBC UK RFB Limited)

Annual Report and Accounts 2017

HSBC

Contents

Presentation of information

This document comprises the *Annual Report and Accounts 2017* for HSBC UK Bank plc ('the Company'). 'We', 'us' and 'our' refer to HSBC UK Bank plc. It contains the Strategic Report, the Report of the Directors, the Statement of Directors' Responsibilities and Financial Statements, together with the Independent Auditors' Report, as required by the UK Companies Act 2006. References to 'HSBC', 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

HSBC UK Bank plc's obligations under the Capital Requirements Country-by-Country Reporting Regulations 2013 will be met by HSBC Holdings plc which publishes annually the information required on a consolidated basis. HSBC Holdings plc will publish this information in respect of the year ended 31 December 2017 by 31 December 2018 on HSBC's website: www.hsbc.com.

All narrative disclosures, tables and graphs within the Strategic Report and Report of the Directors are unaudited unless otherwise stated.

Our reporting currency is £ sterling.

The Company was incorporated on 23 December 2015. Prior period comparatives cover the period from incorporation to 31 December 2016.

Principal activities

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

To meet these requirements, HSBC's ring-fenced bank ('RFB'), named HSBC UK Bank plc, was set up on 23 December 2015, to hold the qualifying components of HSBC Bank plc's UK Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB') and Global Private Banking ('GPB') businesses. The UK Global Banking and Markets ('GB&M') business and current overseas subsidiaries and branches will remain in HSBC Bank plc, which will become HSBC's NRFB.

Principal place of business

The Company is incorporated and domiciled in England and Wales. It's registered office is 8, Canada Square London E14 5HQ. The Company is a wholly owned subsidiary of HSBC UK Holdings Limited. The ultimate holding company is HSBC Holdings plc.

Business review

HSBC UK Bank plc is expected to become HSBC's ring-fenced bank and to commence trading on 1 July 2018. In preparation for this, the following activities took place in 2017:

- In January 2017, HSBC UK Holdings Limited was incorporated and in March 2017 HSBC UK Bank plc was transferred from HSBC Holdings plc to this new intermediate holding company;
- In May 2017, the Company issued one ordinary share of £1 in exchange for a consideration of £14.95m, and on 26 July 2017 it invested £12.9m of the cash received in UK treasury gilts;
- In July 2017, the Company was granted a restricted banking licence from its regulators prior to the satisfaction of the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') Threshold Conditions, and HSBC is currently working on an agreed mobilisation plan to receive an unrestricted licence in 2018; and
- In August 2017, the Company re-registered from a private to a public company and its name changed from HSBC UK RFB Limited to HSBC UK RFB plc on 8 August 2017 and again to HSBC UK Bank plc, on 21 August 2017.

Financial performance

The Company is expected to start operating as HSBC's UK ring-fenced bank on 1 July 2018.

The results and position of the Company for the year ended 31 December 2017 are set out on pages 11 to 19.

The Company made a pre-tax profit of £16,000 (2016: £nil) representing interest earned on UK treasury gilts purchased during the year.

The Company's total shareholders' equity including reserves amounted to £15.01m (2016: £50,000), following the issue of one new £1 ordinary share, issued at a premium of £14.95m. This was used to purchase £12.9m of UK treasury gilts and the balance deposited with HSBC Bank plc.

Risk overview

The Company's exposure to market risk is set out on page 4 of the Report of the Directors.

On behalf of the Board

John David Stuart

Director

HSBC UK Bank plc

Registered number 09928412

21 February 2018

Risk management

The Company has limited market risk exposure in respect of its investment in short dated UK treasury gilts. These gilts were purchased in order to comply with the PRA single counterparty exposure rules. They offer a fixed rate of interest and are AA rated, therefore the market risk associated with these securities is minimal. Ongoing risk monitoring procedures are not considered necessary at this stage, but will be established in advance of the initiation of banking operations in July 2018. For further details on the gilts held, please refer to note 5 on the financial statements.

The number of principal risks is expected to increase significantly in July 2018 as the Company commences banking activities. The Risk Management Framework that will be adopted is expected to be aligned to that of the HSBC Group.

Capital

Capital management

(Audited)

Approach and policy

On 30 May 2017, the Company issued one ordinary share of £1 in exchange for a consideration of £14.95m, to comply with the regulatory capital requirements that apply following the granting of a banking licence. The Company applied to the PRA for a banking licence which was granted (with restrictions) on 10 July 2017. On 26 July 2017, the Company invested £12.9m of the cash received in UK gilts. This capital position still stands as at the end of the reporting period.

Capital measurement

The PRA, as the supervisor of the Company sets capital requirements and receives information on the capital adequacy of HSBC UK Bank plc. The Company complied with the PRA's capital adequacy requirements throughout 2017.

The Basel III framework is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Capital Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systemically Important Institutions ('G-SII'/ 'O-SII') buffer. CRD IV legislation implemented Basel III in the EU, and in the UK, the 'PRA Rulebook' for CRR Firms transposed the various national discretions under the CRD IV legislation into UK requirements.

Regulatory capital

The capital base of an organisation is divided into three main categories, namely common equity tier 1, additional tier 1 and tier 2, depending on their characteristics. At present the Company only holds common equity tier 1, which is the highest quality form of capital, comprising shareholders' equity. We aim to maintain a strong capital base to support the risks inherent in our business and meet capital requirements at all times.

Corporate Governance Report

The Directors who served during the period and up to the date of approval of the financial statements were as follows:

Directors

Name	Appointed	Resigned
Richard John Hennity	23 December 2015	19 September 2017
Stephen James Wotton	23 March 2016	19 September 2017
Dame Clara Hedwig Frances Furse	1 April 2017	
John David Stuart	30 May 2017	
Jonathan James Calladine	2 October 2017	
David Michael Watts	2 October 2017	
Alan Keir	1 February 2018	
Rosemary Leith	1 February 2018	
Leslie Van de Walle	1 February 2018	
Mridul Hegde	7 February 2018	

Fees to non-executive directors are detailed in Note 2 of the financial statements. No remuneration is disclosed for directors whose services are deemed to be provided to the Company as part of their services to HSBC Bank plc.

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 and at the date of the approval of the Report of the Directors, 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 2017 (2016: £nil).

Future changes in business activity

The Company is expected to become HSBC's ring-fenced bank on 1 July 2018. We plan to execute simultaneously the following three transfers on 1 July 2018 under an agreement between HSBC Holdings plc, HSBC Bank plc, HSBC UK Bank plc and HSBC UK Holdings Limited:

- HSBC Bank plc's UK RBWM and the qualifying components of CMB businesses and related items will be transferred to HSBC UK Bank plc through a court-approved ring-fencing transfer scheme process ('RFTS') as defined in Part VII, section 106 of the Financial Services and Markets Act 2000 (as amended) ('FSMA'). In addition to these transfers, certain items will be transferred via alternative arrangements;
- HSBC Bank plc qualifying subsidiaries, notably Marks and Spencer Financial Services Limited, HSBC Private Bank (UK) Limited and a number of asset finance entities, will be transferred to HSBC UK Bank plc as part of the RFTS; and
- HSBC Bank plc will transfer excess reserves to HSBC UK Bank plc through a capital contribution.

Significant events since the end of the financial year

In January 2018, the ring-fencing transfer scheme (RFTS) court process was initiated with the submission of an application to the High Court, followed by the first hearing to consider and approve the communications programme.

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

Statement on 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.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that she/he ought to have taken as a Director to make herself/himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

John David Stuart

Director

HSBC UK Bank plc

Registered number 09928412

21 February 2018

Statement of Directors' Responsibilities in Respect of the Annual Report and Accounts 2017 and 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'). 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 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 the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the 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.

The Directors have responsibility for the maintenance and integrity of the *Annual Report and Accounts 2017* as they appear on HSBC's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, the names of whom are set out in the 'Report of Directors: Governance' section on page 4 of the *Annual Report and Accounts 2017*, confirm that, to the best of their knowledge:

- The financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report represented by the Strategic Report and the Report of the Directors includes a fair review of the development and performance of the Company, together with a description of the principal risks it faces.

On behalf of the Board

John David Stuart

Director

HSBC UK Bank plc

Registered number 09928412

21 February 2018

Independent auditors' report to the members of HSBC UK Bank plc

Report on the audit of the financial statements

Opinion

In our opinion, HSBC UK Bank plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with 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 & Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; 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.

Our opinion is consistent with our reporting to the Board of Directors.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall materiality: £149,990, based on 1% of Total assets.
- As the entity was not trading in the year, there have been no matters requiring significant auditor's attention. We have no key audit matters to report.

The scope of our audit

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

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including the Companies Act 2006, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, and the UK tax legislation. Our tests included review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, enquiries of management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

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

Materiality

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

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

Overall materiality	£149,990
How we determined it	1% of Total assets.
Rationale for benchmark applied	Total assets is used as a benchmark as the entity has not yet commenced trading and therefore profitability is not a relevant measure. Total assets represents the most appropriate benchmark given the nature of the entity.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £7,500 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion 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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 7 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Other matter

The financial statements for the period ended 31 December 2016, forming the corresponding figures of the financial statements for the year ended 31 December 2017, are unaudited.

Carl Sizer

(Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

Birmingham

21 February 2018

Financial Statements

Notes on the Financial Statements

HSBC UK Bank plc (formerly HSBC UK RFB Limited) income statement

for the year/period ended 31 December

	Notes	2017 £000	2016 £000
Net interest income		**16**	–
– interest income		**16**	–
– interest expense		**–**	–
Total operating income		**16**	–
Total operating expenses		**–**	–
Operating profit		**16**	–
Profit before tax		**16**	–
Tax expense	4	**(3)**	–
Profit for the year/period		**13**	–

HSBC UK Bank plc (formerly HSBC UK RFB Limited) statement of comprehensive income

for the year/period ended 31 December

	2017	2016
	£000	£000
Profit for the year/period	13	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments	(2)	–
– fair value losses	(3)	–
– income taxes	1	–
Other comprehensive income for the year/period, net of tax	(2)	–
Total comprehensive income for the year/period	11	–

HSBC UK Bank plc (formerly HSBC UK RFB Limited) balance sheet

at 31 December

	Notes	2017 £000	2016 £000
Assets			
Cash and balances with HSBC Group undertakings		**2,128**	50
Financial investments	*5*	**12,885**	—
Deferred tax assets	*4*	**1**	—
Total assets at 31 Dec		**15,014**	50
Liabilities and equity			
Liabilities			
Current tax liabilities	*4*	**3**	—
Total liabilities at 31 Dec		**3**	—
Equity			
Total shareholders' equity		**15,011**	50
– called up share capital	*6*	**50**	50
– share premium account		**14,950**	—
– other reserves		**(2)**	—
– retained earnings		**13**	—
Total equity at 31 Dec		**15,011**	50
Total liabilities and equity at 31 Dec		**15,014**	50

The accompanying notes on pages 16 to 19 and the audited section of the 'Report of the Directors' on page 4 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 21 February 2018 and signed on its behalf by:

John David Stuart

Director

HSBC UK Bank plc (formerly HSBC UK RFB Limited) statement of cash flows

for the year/period ended 31 December

	2017	2016
	£000	£000
Profit before tax	**16**	–
Adjustments for non-cash items:		
Accrued interest income	**(16)**	–
Net cash from operating activities	–	–
Purchase of financial investments	**(12,872)**	–
Net cash from investing activities	**(12,872)**	–
Issue of ordinary share capital	**14,950**	50
Net cash from financing activities	**14,950**	50
Net increase in cash and cash equivalents	**2,078**	–
Cash and cash equivalents at the beginning of the period	**50**	–
Cash and cash equivalents at 31 Dec	**2,128**	50
Cash and cash equivalents comprise of:		
Cash and balances with HSBC Group undertakings	**2,128**	50

HSBC UK Bank plc (formerly HSBC UK RFB Limited) statement of changes in equity

for the year/period ended 31 December

	Called up share capital	Share premium	Retained earnings	Available-for-sale fair value reserve	Total shareholders' equity
	£000	£000	£000	£000	£000
At 1 Jan 2017	**50**	**—**	**—**	**—**	**50**
Profit for the year	**—**	**—**	**13**	**—**	**13**
Other comprehensive income (net of tax)	**—**	**—**	**—**	**(2)**	**(2)**
– available-for-sale investments	**—**	**—**	**—**	**(2)**	**(2)**
Total comprehensive income for the year	**—**	**—**	**13**	**(2)**	**11**
Share capital issued[1]	**—**	**14,950**	**—**	**—**	**14,950**
At 31 Dec 2017	**50**	**14,950**	**13**	**(2)**	**15,011**
At 23 Dec 2015	—	—	—	—	—
Profit for the period	—	—	—	—	—
Other comprehensive income (net of tax)	—	—	—	—	—
– available-for-sale investments	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	—
Share capital issued	50	—	—	—	50
At 31 Dec 2016	50	—	—	—	50

1 *All new capital subscribed during the year was issued to HSBC UK Holdings Limited. See Note 6 for further details.*

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of HSBC UK Bank plc have been prepared in accordance with IFRSs as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

Standards adopted during the year ended 31 December 2017

There were no new standards applied in 2017, and new interpretations and amendments to standards had an insignificant effect on the financial statements.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2018 and 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 HSBC UK Bank plc.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers', IFRS 16 'Leases' and IFRS 17 'Insurance contracts'. IFRS 9, IFRS 15 and IFRS 16 have been endorsed for use in the EU and IFRS 17 has not yet been endorsed. The Company has no revenue other than from financial instruments and has no lease obligations or insurance contracts. Therefore only IFRS 9 is expected to be applicable. Since all of the Company's debt securities are short dated UK Treasury Gilts guaranteed by the UK Government, IFRS 9 is not expected to have a significant effect on their presentation or measurement.

(c) Foreign currencies

The functional currency of the entity is sterling, which is also the presentational currency of the financial statements. HSBC UK Bank plc did not enter into any transactions in foreign currencies during the period.

(d) Critical accounting estimates and judgements

The Company did not make any critical accounting estimates and judgements during the period.

(e) Segmental analysis

The Company does not disclose a segmental analysis, as it did not have any separate operating segments during the period.

(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.

(g) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this Annual Report and Accounts as follows:

- capital disclosures are included in the 'Report of the Directors: Capital' on page 4.

1.2 Summary of significant accounting policies

(a) Income and expense

Operating income

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.

(b) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received).

(c) Financial instruments measured at fair value

Available-for-sale financial assets

Available-for-sale financial assets are recognised on the trade date when the Company enters into contractual arrangements to purchase them, and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognised in the income statement.

Available-for-sale debt securities

In assessing objective evidence of impairment at the reporting date, the Company considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in the recovery of future cash flows. A subsequent decline in the fair value of the instrument is recognised in the income statement when there is objective evidence of impairment as a result of decreases in the estimated future cash flows. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement.

(d) Tax

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

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

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

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

2 Employee compensation and benefits

In October 2017, 21,571 employees were transferred from HSBC Bank plc to the Company. Their remuneration and numbers have not been included in the Company’s financial statements as the employees were seconded back to HSBC Bank plc until 30 June 2018.

The Company had no other employees and hence no staff costs for the year ending 31 December 2017 (2016: £nil).

Directors' emoluments

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

	2017	2016
	£000	£000
Fees paid to non-executive directors	**338**	–

Fees paid to non-executive directors have been borne by a fellow group undertaking and are therefore not charged in arriving at profit before taxation (2016: £nil).

No remuneration is disclosed for directors who are employed by other companies within the HSBC Group and their services to the Company are incidental to their other responsibilities within the HSBC Group.

The highest paid director received a fee of £337,500.

3 Auditors’ remuneration

	2017	2016
	£000	£000
Audit fees payable to PwC by other HSBC Group companies[1]	**60**	–

1 *Include fees payable for HSBC UK Bank plc statutory audit of £20,000 and other audit related services of £40,000.*

4 Tax

Tax expense

	2017	2016
	£000	£000
Current tax	(3)	–
– for this year	(3)	–
Total tax expense for the year/period ended 31 December	(3)	–

The UK tax rate applying to HSBC UK Bank plc was 19% and will be gradually reduced to 17% by 1 April 2020. The Company did not commence banking operations during the year and therefore the 8% supplementary surcharge on UK banking profits did not apply.

Tax reconciliation

The tax charged to the income statement is taxed at the UK corporation tax rate as follows:

	2017		2016	
	£000	%	£000	%
Profit before tax	16		–	
Tax expense				
UK corporation tax at 19%	(3)	19	–	–
Total tax charged to the income statement	(3)	19	–	–

The effective tax rate for the year was 19%.

Accounting for taxes involves some estimation because the tax law is uncertain and the application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. We do not expect significant liabilities to arise in excess of the amounts provided.

Movement of deferred tax assets and liabilities

	Available-for-sale investments	Total
	£000	£000
At 1 Jan 2017	–	–
Other comprehensive income	1	1
At 31 Dec 2017	1	1
– assets	1	1

5 Financial investments

Carrying amount of financial investments

	2017	2016
	£000	£000
Available for sale securities at fair value		
– debt securities	12,885	–
At 31 Dec	12,885	–

All of the Company's debt securities are short dated UK Treasury Gilts guaranteed by the UK Government. The gilts have a fixed maturity date of 22 July 2018. The debt securities are traded in an active market and externally quoted prices are readily available. They are classified as Level 1 in the fair value hierarchy.

6 Called up share capital

Issued and fully paid

HSBC UK Bank plc £1.00 ordinary shares

	2017		2016	
	Number	£000	Number	£000
At 31 Dec	50,001	50	50,000	50

On 30 May 2017, the Company issued one ordinary share of £1 in exchange for a consideration of £14.95m.

7 Related party transactions

The immediate parent of the Company is HSBC UK Holdings Limited. The parent undertaking of the smallest group that presents consolidated financial statements including the Company is HSBC Holdings plc, which is also the ultimate holding company and the parent company of the largest group that presents consolidated financial statements.

The financial statements of HSBC Holdings plc are available from 8 Canada Square, London, E14 5HQ. Both HSBC UK Holdings Limited and HSBC Holdings plc are incorporated and registered in England and Wales.

Transactions and balances during the year with subsidiaries of HSBC Holdings plc

	2017		2016	
	Due to/from subsidiaries of HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	**Highest balance**	31 Dec	Highest balance
	£000	**£000**	£000	£000
Assets				
Cash and balances with HSBC Group undertakings	**2,128**	**15,000**	50	50
Total related party assets at 31 Dec	**2,128**	**15,000**	50	50

The amounts owed by HSBC Group undertakings relate to cash deposited with HSBC Bank plc.

All costs relating to the set-up of HSBC UK Bank plc up to the date of legal separation will be incurred by HSBC Bank plc. These include director emoluments and auditors' remuneration.

8 Events after the balance sheet date

In January 2018, the ring-fencing transfer scheme (RFTS) court process was initiated with the submission of an application to the High Court, followed by the first hearing to consider and approve the communications programme.

There have been no other significant events after the balance sheet date.

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