

## BASE PROSPECTUS SUPPLEMENT



**HSBC Bank plc**

*(A company incorporated with limited liability in England with registered number 14259)*

*as Issuer*

This Base Prospectus Supplement (the "**Base Prospectus Supplement**") is supplemental to and must be read in conjunction with (i) the Base Prospectus dated 29 May 2009 relating to the Debt Issuance Programme (the "**DIP Base Prospectus**"), (ii) the Base Prospectus dated 30 July 2009 relating to the Programme for the Issuance of Notes and Warrants (the "**NWP Base Prospectus**"), (iii) the Base Prospectus dated 3 September 2008 relating to the Warrant and Certificate Programme (the "**WCP Base Prospectus**") and the supplements thereto dated 17 September 2008, 14 October 2008, 5 January 2009, 6 February 2009, 6 March 2009, 9 April 2009, 7 May 2009 and 29 May 2009, and (iv) the Base Prospectus dated 4 June 2009 relating to the €25 billion Covered Bond Programme Guaranteed as to Payment of Interest and Principal by HSBC Mortgage Limited Liability Partnership (the "**CBP Base Prospectus**") (the DIP Base Prospectus, the NWP Base Prospectus, the WCP Base Prospectus and the CBP Base Prospectus together being hereafter referred to as the "**Base Prospectuses**") prepared by HSBC Bank plc (the "**Bank**") in connection with the applications made for Notes, Warrants or Covered Bonds to be admitted to listing on the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "**FSA**")), and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**").

This Base Prospectus Supplement constitutes a supplement for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and a supplementary prospectus for the purposes of section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**"). Terms defined in any of the Base Prospectuses shall have the same meaning when used in this Base Prospectus Supplement.

To the extent that there is any inconsistency between any statement in this Base Prospectus Supplement and any other statement in, or incorporated by reference in, any of the Base Prospectuses, the statements in this Base Prospectus Supplement will prevail.

### **Amendments to the Summary Notes of the DIP Base Prospectus, the WCP Base prospectus and the NWP Base Prospectus**

The fifth paragraph of the Summary Note in the DIP Base Prospectus and the sixth paragraph of the Summary Note in the WCP Base Prospectus is deleted in its entirety and replaced with the following:

The directors of the Issuer are S K Green, M F Geoghegan CBE, P A Thurston, D C Budd, S T Gulliver, Dame Mary Marsh, R E S Martin, A R D Monro-Davies, S P O'Sullivan, P M Shawyer and J F Trueman. The European Regional Management committee members are P A Thurston, Chairman, Z J Cama, P Y Antika, J P Armstrong, P Boyles, S E Anderson, J M Flint, S Jefford, I S Jenkins, A M Keir, R Lang, A M Mahoney, P M Nolan, A J J Schmitz, D K Sheehan and C Wanderley. The UK Banking Management committee members are P A Thurston, Chairman, S P O'Sullivan, B A Fletcher, J D Garner, J E Harding, J S Llewelly-Jones, N P Quinn, P K Seward and A Watson.

The eighth paragraph of the Summary Note in the DIP Base Prospectus, the eleventh paragraph of the Summary Note of the WCP Base Prospectus and the seventh paragraph of the Summary Note of the NWP Base Prospectus is deleted in its entirety and replaced with the following:

As at 30 June 2009, the Group had total assets of £774,811 million, loans and advances to customers and banks of £329,203 million, total customer accounts and deposits by banks of £408,021 million and total equity of £23,651 million. For the six months ended 30 June 2009, the Group's operating profit was £2,344 million on total operating income of £9,778 million. The Issuer had a total capital ratio of 10.5% and a tier 1 capital ratio of 6.8% as at 31 December 2008.

#### **Amendment to the Registration Document dated 29 May 2009**

The Registration Document, which is incorporated by reference into the Base Prospectuses, is amended as follows:

D D J John is removed from the list of Directors on page 11 of the Registration Document as he ceased to be a Director of the Bank with effect from 30 June 2009.

*The following additions will be made to the paragraph entitled "European Management Committee" in the Registration Document:*

Name	Function	Other principal activities outside the Issuer
R Lang	Regional Head of PFS	-
C Wanderley	Regional Head of Insurance	-

*The second paragraph on page 11 of the Registration Document is deleted in its entirety and replaced with the following:*

The HSBC Group is one of the largest banking and financial services organisations in the world, with around 8,500 offices in 86 countries and territories in six geographical regions: Europe; Hong Kong; Rest of Asia-Pacific; the Middle East including Africa; North America; and Latin America. Its total assets as at 30 June 2009 were £1,464 billion.

*The paragraph entitled "Trend Information" on page 11 of the Registration Document is deleted in its entirety and replaced with the following:*

Weak global economic conditions and a low level of resource utilisation are expected to further suppress inflationary pressures, encouraging a prolonged period of unusually low interest rates within both the euro-zone and the UK.

The Bank expects UK GDP to fall by 3.8 per cent. for the full year 2009 following an expansion of 0.7 per cent in 2008, due to stabilisation of economic conditions during the second half of the year. Declines in commodity prices and weak domestic demand are expected to contribute to a continued fall in the headline rate of consumer price inflation until the end of 2009. Declining consumer and investment expenditure have driven the contraction of UK economic activity in the first half of 2009, and a further substantial increase in unemployment is expected during the remainder of 2009 and into 2010.

Euro-zone GDP is expected to contract by 4.3 per cent for the full year 2009, following an expansion of 0.6 per cent in 2008. Such weakness is expected to be broadly-based across the region's major economies, although the relatively high dependence of the German economy upon global trade represents a potential area of vulnerability. Consumption proved subdued in 2008 and the first half of 2009 and is expected to remain weak given the deterioration in labour markets across the euro-zone.

Operating conditions in the financial sector have continued to improve as the effects of government and central bank policies work through the system. Nonetheless, the timing, shape and scale of any recovery in the wider economy remains highly uncertain. Our view continues to be cautious as a number of serious impediments to growth remain, of which unemployment will be the most important factor.

*The fourth paragraph of the section entitled "General Information" on page 15 of the Registration Document is deleted in its entirety and replaced with the following:*

4. Neither the Bank nor any of the Bank's subsidiary undertakings, save as disclosed in the first eight paragraphs of Note 41 Litigation on page 164 to 165 of the Issuer's consolidated audited Annual Report and Accounts for the year ended 31 December 2008 and Note 12 Litigation on page 19 to 20 of the Issuer's consolidated Interim Report of the six months ended 30 June 2009, taken as a whole, is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened against the Bank or any of its subsidiary undertakings of which the Bank is aware), during the 12 month period before the date of this Registration Document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Bank and its subsidiary undertakings taken as a whole.

#### **Publication of Interim Report**

On 3 August 2009, the Bank published its unaudited consolidated Interim Report for the six months ended 30 June 2009 (the "**Interim Report**") in the form annexed hereto. Any document incorporated by reference into the Interim Report does not form part of this Base Prospectus Supplement.

Save as disclosed in this Base Prospectus Supplement and in any prior supplements to any of the Base Prospectuses, no significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectuses has arisen since the publication of the Base Prospectuses.

Investors should be aware of their rights under Section 87Q(4) of the FSMA.

The Bank accepts responsibility for the information contained in this Base Prospectus Supplement. To the best of the knowledge and belief of the Bank (which has taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

4 August 2009

## ANNEX

**Company No. 14259**

**2009**

**Interim Report**

**HSBC Bank plc**

## Interim Report 2009

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## Presentation of Information

This document comprises the *Interim Report 2009* for HSBC Bank plc ('the bank') and its subsidiary undertakings (together 'the group'). It contains the Interim Management Report and Condensed Financial Statements, together with the Auditor's review report, as required by the Financial Services Authority's ('FSA') Disclosure Rules and Transparency Rules ('DTR'). References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Detailed disclosures reflecting the impact of market turmoil as recommended by the Financial Stability Forum (now re-established as the Financial Stability Board) on 'Enhancing Market and Institutional Resilience' (April 2008), the consequent International Accounting Standards Board ('IASB') Expert Advisory Panel's report 'Measuring and disclosing the fair value of financial Instruments in markets that are no longer active' (October 2008) and the report by the Committee of European Banking Supervisors on 'Banks' Transparency on Activities and Products affected by the Recent Market Turmoil' (June 2008) are presented in HSBC Holdings plc's 'Interim Management Report: Impact of Market Turmoil' on a consolidated and geographical basis, with the relevant figures for HSBC Bank plc presented under the 'Europe' geographical region.

## Cautionary Statement Regarding Forward-Looking Statements

This *Interim Report* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the bank.

Statements that are not historical facts, including statements about the bank's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or subsequent events.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

## Management Report

### Highlights

- Total operating income up by 26 per cent to £9,778 million (£7,755 million in the first half of 2008).
- Net operating income before loan impairments up by £1,147 million, 16 per cent, to £8,198 million (£7,051 million in the first half of 2008).
- Loan impairments increased by £1,223 million to £1,795 million as deterioration in credit quality was experienced across all customer groups as the European economies weakened.
- Pre-tax profit down by 9 per cent to £2,358 million (£2,598 million in the first half of 2008).
- An additional £2,777 million of capital was raised to continue to strengthen the capital base.

### Business review

- Reported pre-tax profit of £2,358 million, compared with £2,598 million in 2008, a decrease of 9 per cent. Within these figures was a negative fair value movement of £128 million on own debt held at fair value as financial markets stabilised and credit spreads tightened in the first half of 2009.
- Global Banking and Markets profit before tax up by 166 per cent to £1,595 million (£599 million in the first half of 2008). This was driven by record revenues in Balance Sheet Management and Rates coupled with a significant fall in credit related write-downs, partly offset by higher loan impairment charges and impairments to assets in the available-for-sale portfolio reflecting the deterioration in the economic environment.
- UK Retail profit before tax declined by 54% to £666 million (£1,452 million in the first half of 2008). Both lending and deposit average balances are higher than the comparable period in 2008, but liability spreads in both Commercial Banking and Personal Financial Services were adversely affected by interest rate cuts. The first half of 2009 was also impacted by higher loan impairments in both businesses.
- Continental Europe Retail profit before tax down by 36 per cent to £142 million (£221 million in the first half of 2008). Removing the impact of the sale of seven regional French banks in July 2008, profit before tax was flat to 2008.
- Private Banking profit before tax up by 10 per cent to £401 million (£365 million in the first half of 2008). However on a constant currency basis, profit before tax declined by 12% which was driven by a fall in value of client assets and lower transaction volumes as a result of client risk aversion and volatile equity markets. In addition in the first half of 2008 there was a one off gain recorded on the sale of the group's residual interest in the Hermitage Fund.

Significant non-recurring items impacting the first half 2009 results were:

- A gain of £180 million on disposal of the remaining stake of the bank's UK Card acquiring business which was lower than a related gain of £215 million in 2008.
- A £322 million reduction in the pension charge in the UK due to the accounting benefit arising from changes in the way death in service and ill health benefits are delivered.

### Economy

The UK economy suffered a sharp contraction during the first half of 2009, although much of this weakness was concentrated within the early months of the year and the second quarter brought some evidence of a stabilisation of economic conditions. First quarter Gross Domestic Product ('GDP') fell by 4.9 per cent against the comparable period of 2008, the sharpest contraction on record. Labour market conditions continued to deteriorate with the unemployment rate rising to a twelve-year high of 7.6 per cent in May 2009. Indicators of housing market activity improved only marginally from very subdued levels, although some monthly increases in house prices were recorded during the second quarter of 2009. After reducing interest rates to just 0.5 per cent in March 2009, the Bank of England launched the Asset Purchase Facility in an attempt to improve the circulation of credit across the economy and support expectations of future economic activity. Consumer Price Index ('CPI') inflation moderated throughout the first half of the year, falling from 3.0 per cent in January 2009 to 1.8 per cent in June and below the Bank of England's 2 per cent target.

## Management Report

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The **euro-zone** economy performed poorly during the first half of 2009. First quarter Gross Domestic Product ('GDP') fell by 4.9 per cent against the comparable period of 2008, although as in the UK the broad range of economic data pointed to some stabilization of conditions during the second quarter. Investment expenditure proved exceptionally weak, while consumer spending continued to contract as the unemployment rate increased to 9.5 per cent in May 2009 from 8.2 per cent in December 2008. The annual rate of consumer price inflation fell substantially during the period, moving from 1.6 per cent in December 2008 to -0.1 per cent in June 2009, the first negative reading since the euro-zone's inception, although much of this decline reflected the earlier rise and then fall of energy prices. The European Central Bank cut interest rates by 150 basis points during the first half of the year, leaving the refinancing rate at a record low level of 1 per cent in June 2009.

### Outlook

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Weak global economic conditions and a low level of resource utilisation are expected to further suppress inflationary pressures, encouraging a prolonged period of unusually low interest rates within both the euro-zone and the UK.

The bank expects UK GDP to fall by 3.8 per cent for the full year 2009 following an expansion of 0.7 per cent in 2008, due to stabilisation of economic conditions during the second half of the year. Declines in commodity prices and weak domestic demand are expected to contribute to a continued fall in the headline rate of consumer price inflation until the end of 2009. Declining consumer and investment expenditure have driven the contraction of UK economic activity in the first half of 2009, and a further substantial increase in unemployment is expected during the remainder of 2009 and into 2010.

Euro-zone GDP is expected to contract by 4.3 per cent for the full year 2009, following an expansion of 0.6 per cent in 2008. Such weakness is expected to be broadly-based across the region's major economies, although the relatively high dependence of the German economy upon global trade represents a potential area of vulnerability. Consumption proved subdued in 2008 and the first half of 2009 and is expected to remain weak given the deterioration in labour markets across the euro-zone.

Operating conditions in the financial sector have continued to improve as the effects of government and central bank policies work through the system. Nonetheless, the timing, shape and scale of any recovery in the wider economy remains highly uncertain. Our view continues to be cautious as a number of serious impediments to growth remain, of which unemployment will be the most important factor.



## Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2009 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related parties transactions that have taken place in the first six months of the financial year ending 31 December 2009 and that have materially affected the financial position or performance of the group during that period; and any changes in the related parties transactions described in the *Annual Report and Accounts 2008* that could do so.

S K Green (Chairman); M F Geoghegan (Deputy Chairman); P A Thurston (Chief Executive); D C Budd (Non-Executive Director); S T Gulliver (Executive Director); Dame Mary Marsh (Independent Non-Executive Director); R E S Martin (Independent Non-Executive Director); A R D Monro-Davies (Independent Non-Executive Director); S P O'Sullivan (Executive Director); P M Shawyer (Independent Non-Executive Director); J F Trueman (Independent Non-Executive Director).

M F Geoghegan (Deputy Chairman)  
For and on behalf of the board

3 August 2009

## Condensed Financial Statements (unaudited)

### Consolidated income statement for the half-year to 30 June 2009

	Half-year to		
	30 June 2009	30 June 2008	
	Notes	£m	£m
Interest income .....		6,983	9,165
Interest expense .....		(2,834)	(6,793)
Net interest income.....		4,149	2,372
Fee income .....		2,817	2,850
Fee expense .....		(777)	(741)
Net fee income.....		2,040	2,109
Trading income excluding net interest income .....		622	826
Net interest income on trading activities.....		954	976
Net trading income.....		1,576	1,802
Net income/(expense) from financial instruments designated at fair value .....		236	(541)
Gains less losses from financial investments.....		(162)	284
Dividend income .....		17	21
Net earned insurance premiums.....		1,437	1,157
Other operating income .....		485	551
<b>Total operating income.....</b>		<b>9,778</b>	<b>7,755</b>
Net insurance claims incurred and movement in liabilities to policyholders .....		(1,580)	(704)
<b>Net operating income before loan impairment charges and other credit risk provisions .....</b>		<b>8,198</b>	<b>7,051</b>
Loan impairment charges and other credit risk provisions.....	4	(1,795)	(572)
<b>Net operating income .....</b>		<b>6,403</b>	<b>6,479</b>
Employee compensation and benefits .....	5	(2,252)	(2,219)
General and administrative expenses .....		(1,515)	(1,398)
Depreciation and impairment of property, plant and equipment .....		(223)	(217)
Amortisation and impairment of intangible assets.....		(69)	(47)
<b>Total operating expenses .....</b>		<b>(4,059)</b>	<b>(3,881)</b>
<b>Operating profit .....</b>		<b>2,344</b>	<b>2,598</b>
Share of profit in associates and joint ventures.....		14	-
<b>Profit before tax .....</b>		<b>2,358</b>	<b>2,598</b>
Tax expense .....		(516)	(568)
<b>Profit for the period .....</b>		<b>1,842</b>	<b>2,030</b>
Profit attributable to shareholders of the parent company.....		1,806	1,984
Profit attributable to minority interests .....		36	46

**Condensed Financial Statements (unaudited)** (continued)**Consolidated statement of comprehensive income for the half-year to 30 June 2009**

	Half-year to	
	30 June 2009 £m	30 June 2008 £m
Profit for the period .....	1,842	2,030
<b>Other comprehensive income</b>		
Available-for-sale investments:		
– fair value gains/(losses) taken to equity .....	1,396	(3,080)
– fair value losses/(gains) transferred to income statement.....	90	(275)
– amounts transferred to the income statement in respect of impairment losses .....	375	29
– income taxes .....	(138)	158
Cash flow hedges:		
– fair value gains/(losses) taken to equity .....	71	(195)
– fair value losses/(gains) transferred to income statement .....	2	(16)
– income taxes .....	(20)	60
Actuarial losses on defined benefit plans		
– before income taxes .....	(2,396)	(335)
– income taxes .....	666	91
Exchange differences .....	(1,567)	1,032
Other comprehensive income for the period, net of tax .....	(1,521)	(2,531)
Total comprehensive income for the period .....	<u>321</u>	<u>(501)</u>
Total comprehensive income for the year attributable to:		
– shareholders of the parent company .....	342	(563)
– minority interests .....	(21)	62
	<u>321</u>	<u>(501)</u>

**Condensed Financial Statements (unaudited)** (continued)**Consolidated statement of financial position at 30 June 2009**

		At 30 June 2009	At 31 December 2008
	<i>Notes</i>	£m	£m
<b>ASSETS</b>			
Cash and balances at central banks .....		13,683	9,470
Items in the course of collection from other banks .....		2,229	1,917
Trading assets .....	6	158,637	172,026
Financial assets designated at fair value .....	6	14,669	13,895
Derivatives .....	6	138,165	243,084
Loans and advances to banks .....	4,6	49,694	50,719
Loans and advances to customers .....	4,6	279,509	298,304
Financial investments .....	6	91,753	103,511
Other assets .....		6,257	8,802
Current tax assets .....		66	215
Prepayments and accrued income .....		4,387	5,625
Interests in associates and joint ventures .....		77	73
Goodwill and intangible assets .....		10,808	11,780
Property, plant and equipment .....		4,541	4,697
Deferred tax assets .....		336	113
<b>Total assets .....</b>		<b>774,811</b>	<b>924,231</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits by banks .....	6	56,634	61,431
Customer accounts .....	6	351,387	369,880
Items in the course of transmission to other banks .....		1,680	1,802
Trading liabilities .....	6	119,053	124,450
Financial liabilities designated at fair value .....	6	14,991	15,184
Derivatives .....	6	134,977	241,031
Debt securities in issue .....	6	37,391	52,308
Other liabilities .....		5,307	6,897
Current tax liabilities .....		443	197
Liabilities under insurance contracts issued .....		15,338	16,132
Accruals and deferred income .....		4,086	5,464
Provisions .....		387	428
Deferred tax liabilities .....		131	443
Retirement benefit liabilities .....		2,701	664
Subordinated liabilities .....	6	6,654	7,259
<b>Total liabilities .....</b>		<b>751,160</b>	<b>903,570</b>
<b>Equity</b>			
Called up share capital .....		797	797
Share premium account .....		20,026	17,249
Other equity instruments .....		1,750	1,750
Other reserves .....		(7,576)	(7,842)
Retained earnings .....		8,062	7,969
<b>Total shareholders' equity .....</b>		<b>23,059</b>	<b>19,923</b>
Minority interests .....		592	738
<b>Total equity .....</b>		<b>23,651</b>	<b>20,661</b>
<b>Total equity and liabilities .....</b>		<b>774,811</b>	<b>924,231</b>

M F Geoghegan (Deputy Chairman)

3 August 2009

## Condensed Financial Statements (unaudited) (continued)

### Consolidated statement of changes in equity for the half-year to 30 June 2009

	30 June 2009											
	Called up share capital	Share premium	Instruments	Other equity	Retained earnings	Other Reserves				Total shareholders' equity	Minority interests	Total equity
						Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Total			
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	797	17,249	1,750	1,750	7,969	(11,627)	327	3,458	19,923	738	20,661	
Share capital issued, net of costs <sup>1</sup>	-	2,777	-	-	-	-	-	-	2,777	-	2,777	
Dividends to shareholders	-	-	-	-	(77)	-	-	-	(77)	-	(77)	
Net impact of equity-settled share-based payments	-	-	-	-	94	-	-	-	94	-	94	
Purchase of minority interest <sup>2</sup>	-	-	-	-	-	-	-	-	-	(125)	(125)	
Total comprehensive income for the period	-	-	-	-	76	1,723	53	(1,510)	342	(21)	321	
At 30 June	797	20,026	1,750	1,750	8,062	(9,904)	380	1,948	23,059	592	23,651	

1 All new capital subscribed in the half-year to 30 June 2009 was issued to HSBC Holdings plc. See note 11 for further details.  
2 Relates to the purchase of minority interest in HSBC Private Bank(Suisse) SA, refer to Note 10 Related Party Transactions.

	30 June 2008											
	Called up share capital	Share premium	Instruments	Other equity	Retained earnings	Other Reserves				Total shareholders' equity	Minority interests	Total equity
						Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Total			
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January as reported	797	15,499	1,000	1,000	7,587	(757)	(60)	357	24,423	576	24,999	
Share capital issued, net of costs	-	1,000	-	-	-	-	-	-	1,000	-	1,000	
Capital securities issued	-	-	-	750	-	-	-	-	750	-	750	
Dividends to shareholders	-	-	-	-	(1,036)	-	-	-	(1,036)	-	(1,036)	
Net impact of equity-settled share-based payments	-	-	-	-	177	-	-	-	177	-	177	
Other movements	-	-	-	-	(13)	-	-	-	(13)	(32)	(45)	
Total comprehensive income for the period	-	-	-	-	1,741	(3,165)	(151)	1,012	(563)	62	(501)	
At 30 June	797	16,499	1,750	1,750	8,456	(3,922)	(211)	1,369	24,738	606	25,344	

**Condensed Financial Statements (unaudited)** (continued)**Consolidated statement of cash flows for the half-year to 30 June 2009**

	Half-year to	
	30 June 2009 £m	30 June 2008 £m
<b>Cash flows from operating activities</b>		
Profit before tax .....	2,358	2,598
Adjustments for:		
– non-cash items included in profit before tax .....	2,179	888
– change in operating assets .....	22,913	(43,440)
– change in operating liabilities .....	(41,963)	35,783
– elimination of exchange differences <sup>1</sup> .....	14,032	(4,722)
– net gain from investing activities .....	(176)	(523)
– share of profits in associates and joint ventures .....	(14)	–
– distribution from associates .....	(8)	–
– contributions paid to defined benefit pension plans .....	(141)	135
– tax paid .....	(120)	(476)
Net cash used in operating activities .....	(940)	(9,757)
<b>Cash flows used in investing activities</b>		
Purchase of financial investments .....	(47,337)	(24,654)
Proceeds from the sale of financial investments .....	50,292	24,070
Purchase of property, plant and equipment .....	(273)	(228)
Proceeds from the sale of property, plant and equipment .....	77	55
Purchase of goodwill and intangible assets .....	(74)	(78)
Net cash outflow from acquisition of and increase in stake of subsidiaries .....	(247)	–
Net cash outflow from acquisition of and increase in stake of associates .....	(14)	(1)
Proceeds from disposal of associates .....	187	62
Purchase of HSBC Holdings plc shares to satisfy share based payment transactions .....	(21)	(187)
Net cash generated from / (used in) investing activities .....	2,590	(961)
<b>Cash flows from financing activities</b>		
Issue of share capital .....	2,777	1,000
Issue of capital securities .....	–	750
Subordinated loan capital issued .....	–	350
Subordinated loan capital repaid .....	(99)	–
Dividends paid to shareholders .....	(77)	(1,036)
Dividends paid to minority interests .....	–	(13)
Net cash generated from financing activities .....	2,601	1,051
<b>Net increase/(decrease) in cash and cash equivalents</b> .....	<b>4,251</b>	<b>(9,667)</b>
Cash and cash equivalents at the beginning of the period .....	60,855	51,235
Exchange rate differences in respect of cash and cash equivalents .....	(5,665)	2,766
Cash and cash equivalents at the end of the period .....	59,441	44,334

<sup>1</sup> Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.

## Notes on the Condensed Financial Statements (unaudited)

### 1 Basis of preparation

#### (a) Compliance with International Financial Reporting Standards

The interim consolidated financial statements of the group have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU.

The consolidated financial statements of the group at 31 December 2008 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2008, there were no unendorsed standards effective for the year ended 31 December 2008 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group. Accordingly, the group's financial statements for the year ended 31 December 2008 were prepared in accordance with IFRSs as issued by the IASB.

At 30 June 2009, there were no unendorsed standards effective for the period ended 30 June 2009 affecting these consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

During the period ended 30 June 2009, the group adopted the following significant standards and amendments to standards

- On 1 January 2009, the group adopted IFRS 8 'Operating Segments' (IFRS 8), which replaced IAS 14 'Operating Segments'. IFRS 8 requires an entity to disclose information about its segments which enables users to evaluate the nature and financial effects of its business activities and the economic environments in which it operates. The group is organised into five segments, UK Retail, Continental Europe Retail, Global Banking and Markets, Private Banking and Other. Because of the nature of the group, the group's chief operating decision maker regularly reviews operating activity on a number of bases, including by geography, by customer group, and by retail businesses and global businesses. The chief operating decision maker uses segmental information in making decisions about allocating resources and assessing performance.

IFRS 8 requires segment information to be reported using the same measure reported to the chief operating decision maker for the purpose of making decisions about allocating resources to the segment and assessing its performance. Information provided to the chief operating decision maker of the group to make decision about allocating resources and assessing performance of operating segments is measured in accordance with IFRSs.

- On 1 January 2009, the group adopted revised IAS 1 'Presentation of Financial Statements' (IAS 1). The revised standard aims to improve users' ability to analyse and compare information given in financial statements. The adoption of the revised standard has no effect on the results reported in the group's consolidated financial statements. It does, however, result in certain presentational changes in the group's financial statements, including:
  - the presentation of all items of income and expenditure in two financial statements, the 'Income statement' and 'Statement of comprehensive income';
  - the presentation of the 'Statement of changes in equity' as a financial statement, which replaces the 'Equity' note on the financial statements; and

## Notes on the Condensed Financial Statements (unaudited) (continued)

During the period ended 30 June 2009, the group has adopted a number of amendments to standards and interpretations which has an insignificant effect on the consolidated financial statements. These are described on pages 34 to 35 of the *Annual Report and Accounts 2008*.

### (b) Comparative information

These interim consolidated financial statements include comparative information as required by IAS 34 and the UK Disclosure and Transparency Rules.

### (c) Use of assumptions and estimates

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported. Management believes that the group's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, the impairment of available-for-sale financial assets and deferred tax assets.. These critical accounting policies are described on pages 52 to 55 of the *Annual Report and Accounts 2008*.

### (d) Consolidation

The interim consolidated financial statements of the group comprise the condensed financial statements of HSBC Bank Plc and its subsidiaries. The method adopted by the group to consolidate its subsidiaries is described on pages 33 and 34 of the *Annual Report and Accounts 2008*.

## 2 Accounting policies

The accounting policies and method of computation adopted by the group for these interim consolidated financial statements are consistent with those described on pages 36 to 52 of the *Annual Report and Accounts 2008*, except as discussed in Note 1, Basis of preparation.

## 3 Dividends

Dividends to shareholders of the parent company were as follows:

	Half-year to 30 June 2009		Year to 31 December 2008	
	£ per share	Total £m	£ per share	Total £m
<b>Dividends declared on ordinary shares</b>				
Second interim dividend in respect of previous year .....	–	–	1.25	1,000
First interim dividend in respect of current year .....	–	–	1.04	825
Second interim dividend in respect of current year .....	–	–	1.30	1,037
	–	–	3.59	2,862

### Dividends on preference shares classified as equity

In the first half of 2009 no dividend was paid on the HSBC Bank plc non-cumulative third dollar preference shares. (2008: no dividend was paid in the first half and £1.17 per share, totalling £41m, was paid in the second half)

### Interest on capital securities classified as equity

In the first half of 2009 £77 million interest on perpetual subordinated debt was paid out at the sole and absolute discretion of the Board of Directors. (2008: £36 million was paid out in the first half and £35 million was paid out in the second half)



**Notes on the Condensed Financial Statements (unaudited)** (continued)**4 Impairment allowances and charges**

Loan impairment charges and other credit risk provisions comprises:

	Half-year to	
	30 June 2009	30 June 2008
	£m	£m
Total loans and advances		
- new allowances net of allowance releases .....	1,612	644
- recoveries of amounts previously written off .....	(86)	(86)
	1,526	558
Impairment charges on debt securities and other credit risk provisions .....	269	14
	1,795	572

## Movement in impairment allowances on total loans and advances

	Individually assessed £m	Collectively assessed £m	Total £m
At 1 January 2009 .....	1,423	1,122	2,545
Amounts written off .....	(169)	(570)	(739)
Recoveries of amounts previously written off .....	15	71	86
Charge to income statement .....	864	662	1,526
Foreign exchange and other movements .....	(108)	(38)	(146)
At 30 June 2009 .....	2,025	1,247	3,272
At 1 January 2008 .....	923	873	1,796
Amounts written off .....	(114)	(400)	(514)
Recoveries of amounts previously written off .....	8	78	86
Charge to income statement .....	104	454	558
Foreign exchange and other movements <sup>1</sup> .....	(133)	(84)	(217)
At 30 June 2008 .....	788	921	1,709

<sup>1</sup> £150 million individual assessed allowances and £15 million collectively assessed allowances related to the French regional banking subsidiaries were reclassified to assets held for sale in the half-year to 20 June 2008.

## Notes on the Condensed Financial Statements (unaudited) (continued)

### 5 Post-employment benefits

Included within 'Employee compensation and benefits' are components of net periodic benefit cost related to the group's defined benefit pension plans and other post-employment benefits, as follows:

	Half-year to	
	30 June 2009	30 June 2008
	£m	£m
Current service cost	121	116
Interest cost	350	353
Expected return on plan assets	(320)	(383)
Gains on settlements	–	(37)
Other gains	(322)	–
Net defined benefit cost	<u>(171)</u>	<u>49</u>

The group revalues its defined benefit post-employment plans each year at 31 December, in consultation with the plans' local actuaries. The assumptions underlying the calculations are used to determine the expected income statement charge for the following year.

At 30 June each year, the group revalues all plan assets to current market prices. The group also reviews the assumptions used to calculate the defined benefit obligations (the liabilities of the plans) and updates the carrying amount of the obligations if there have been significant changes as a consequence of changes in assumptions.

Reductions in the average yields of high quality (AA rated or equivalent) debt instruments in certain regions in the first half of 2009, together with a rise in inflation expectations, resulted in significant changes in the valuation of the defined benefit obligations. The group has, therefore, revalued certain plan obligations where the impact has been significant.

The change in actuarial assumptions resulted in an increase in the defined benefit obligation for the HSBC Bank (UK) Pension Scheme of £1.5 billion. In addition, the actual return on plan assets of the HSBC Bank (UK) Pension Scheme was approximately £0.9 billion below expected return. All differences from expected changes were recognised directly in equity as actuarial losses.

HSBC Bank employees (or their estates) are entitled to receive a multiple of their salary upon death-in-service, or a percentage of their salary for a number of years upon being diagnosed with certain critical illnesses. Up until June 2009, the UK pension scheme liability included actuarial valuations of future amounts payable to meet these benefits, to the extent these were attributed to past service. As part of the introduction of flexible benefits for employees the bank changed the basis of delivery of these benefits such that they are no longer provided through the UK pension scheme. Critical illness cover for defined benefit members remains an obligation of the UK pension scheme.

Upon the finalisation of these new arrangements in June 2009, the calculation of the pension scheme liability no longer included the actuarial projections of meeting these costs, and a corresponding accounting benefit of £322 million was recognised in the income statement.

## Notes on the Condensed Financial Statements (unaudited) (continued)

### 6 Fair values of financial instruments

Fair values are determined in accordance with the methodology set out in the *Annual Report and Accounts 2008* in the accounting policies on pages 33 to 52, and in Note 31 on pages 108 to 113.

#### Basis of valuing Fair value of financial assets and liabilities measured carried at fair value

	Valuation techniques			Total £m
	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	
<b>At 30 June 2009</b>				
<b>Assets</b>				
Trading assets .....	112,389	44,512	1,736	158,637
Financial assets designated at fair value ...	8,931	5,738	–	14,669
Derivatives .....	3,840	132,157	2,168	138,165
Financial investments: available-for-sale ..	38,770	43,823	3,192	85,785
<b>Liabilities</b>				
Trading liabilities .....	67,245	49,507	2,301	119,053
Financial liabilities at fair value .....	4,192	10,799	–	14,991
Derivatives .....	4,933	128,452	1,592	134,977
<b>At 31 December 2008</b>				
<b>Assets</b>				
Trading assets .....	100,829	69,001	2,196	172,026
Financial assets designated at fair value ...	7,530	6,365	–	13,895
Derivatives .....	4,866	236,090	2,128	243,084
Financial investments: available-for-sale ..	38,201	60,942	4,368	103,511
<b>Liabilities</b>				
Trading liabilities .....	58,226	63,815	2,409	124,450
Financial liabilities at fair value .....	4,174	11,010	–	15,184
Derivatives .....	6,093	233,961	977	241,031

Trading assets valued using a valuation technique with significant un-observable inputs include various asset-backed securities, leveraged loans underwritten by the group and corporate and mortgage loans held for securitisation.

Derivative products valued using a valuation technique with significant un-observable inputs include certain types of correlation products, particularly equity and foreign exchange basket options and foreign exchange-interest rate hybrid transactions, long-dated option transactions, particularly equity options, interest rate and foreign exchange options and certain credit derivatives, including tranching credit default swap transactions and credit derivatives executed with certain monoline insurers.

Available-for-sale financial investments and financial assets designated at fair value that are valued using un-observable inputs include holdings of private equity and asset-backed securities.

#### Fair values of financial instruments not carried at fair value

	30 June 2009		31 December 2008	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Assets</b>				
Loans and advances to banks .....	49,694	49,687	50,719	50,703
Loans and advances to customers .....	279,509	272,464	298,304	292,059
Financial investments: debt securities .....	5,968	6,044	25	25
<b>Liabilities</b>				
Deposits by banks .....	56,634	56,610	61,431	61,454
Customer accounts .....	351,387	351,538	369,880	369,857
Debt securities in issue .....	37,391	36,167	52,308	51,461
Subordinated liabilities .....	6,654	5,929	7,259	6,589

## Notes on the Condensed Financial Statements (unaudited) (continued)

### 7 Credit quality of financial instruments

The four credit quality classifications set out and defined on page 132 of the 2008 Annual Report & Accounts describe the credit quality of the group's lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities.

The following tables set out the group's distribution of financial instruments by measures of credit quality:

	30 June 2009						
	Neither past due nor impaired			Past due not impaired	Impaired	Impairment allowances	Total
	Strong £m	Medium £m	Sub-standard £m	£m	£m	£m	£m
Items in the course of collection from other banks ..	2,191	38	–	–	–	–	2,229
Trading assets .....	106,688	36,907	1,086				144,681
– treasury and other eligible bills .....	–	1	34				35
– debt securities .....	58,146	9,521	590				68,257
– loans and advances to banks .....	18,623	8,159	372				27,154
– loans and advances to customers .....	29,919	19,226	90				49,235
Financial assets designated at fair value .....	5,021	4,209	6				9,236
– treasury and other eligible bills .....	207	–	–				207
– debt securities .....	4,257	4,209	6				8,472
– loans and advances to banks .....	110	–	–				110
– loans and advances to customers .....	447	–	–				447
Derivatives .....	110,673	26,656	836				138,165
Loans and advances held at amortised cost .....	196,287	114,051	13,686	2,093	6,358	(3,272)	329,203
– loans and advances to banks .....	42,122	7,241	321	–	53	(43)	49,694
– loans and advances to customers .....	154,165	106,810	13,365	2,093	6,305	(3,229)	279,509
Financial investments .....	81,962	7,070	275	–	362		89,669
– treasury and other similar bills .....	2,321	2	3	–	–		2,326
– debt securities .....	79,641	7,068	272	–	362		87,343
Other assets .....	3,288	1,320	7	12	4		4,631
– endorsements and acceptances .....	3	315	2	–	–		320
– other .....	3,285	1,005	5	12	4		4,311

## Notes on the Condensed Financial Statements (unaudited) (continued)

31 December 2008

	Neither past due nor impaired			Past due not impaired £m	Impaired £m	Impairment allowances £m	Total £m
	Strong £m	Medium £m	Sub- standard £m				
Items in the course of collection from other banks ..	1,917	–	–	–	–	–	1,917
Trading assets .....	117,335	40,822	743				158,900
– treasury and other eligible bills .....	–	21	–				21
– debt securities .....	66,272	10,969	–				77,241
– loans and advances to banks .....	32,006	5,892	–				37,898
– loans and advances to customers .....	19,057	23,940	743				43,740
Financial assets designated at fair value .....	1,649	6,424	–				8,073
– treasury and other eligible bills .....	22	21	–				43
– debt securities .....	977	6,403	–				7,380
– loans and advances to banks .....	153	–	–				153
– loans and advances to customers .....	497	–	–				497
Derivatives .....	201,340	41,336	408				243,084
Loans and advances held at amortised cost .....	195,187	138,836	11,462	2,339	3,744	(2,545)	349,023
– loans and advances to banks .....	41,824	8,656	240	–	42	(43)	50,719
– loans and advances to customers .....	153,363	130,180	11,222	2,339	3,702	(2,502)	298,304
Financial investments .....	94,540	5,518	521	–	264		100,843
– treasury and other similar bills .....	10,551	–	11	–	–		10,562
– debt securities .....	83,989	5,518	510	–	264		90,281
Other assets .....	4,229	3,290	239	–	1		7,759
– endorsements and acceptances .....	165	191	13	–	1		370
– other .....	4,064	3,099	226	–	–		7,389

**Notes on the Condensed Financial Statements (unaudited)** (continued)**8 Contingent liabilities, contractual commitments and guarantees**

	At 30 June 2009 £m	At 31 December 2008 £m
<b>Guarantees and other contingent liabilities</b>		
Guarantees and irrevocable letters of credit pledged as collateral security	18,292	21,310
Other contingent liabilities .....	26	110
	<b>18,318</b>	<b>21,420</b>
<b>Commitments</b>		
Documentary credits and short-term trade-related transactions .....	1,608	2,204
Forward asset purchases and forward deposits placed .....	432	493
Undrawn note issuing and revolving underwriting facilities .....	—	—
Undrawn formal standby facilities, credit lines and other commitments to lend .....	131,852	151,694
	<b>133,892</b>	<b>154,391</b>

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees excluding contingent liabilities in respect of litigation which are disclosed in Note 12. Commitments and guarantees are mainly credit-related instruments which include both financial and non financial guarantees and commitments to extend credit. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements.

**Financial Services Compensation Scheme**

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse, during 2008, of a number of deposit takers such as Bradford & Bingley plc, Heritable Bank plc and Kaupthing Singer & Friedlander Limited. The compensation paid out to consumers is currently funded through loans from HM Treasury. The bank could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury which at 31 December 2009 stood at £18.2 billion. The bank is also obligated to pay its share of forecast management expenses based on the bank's market share of deposits protected under the FSCS.

The bank has accrued £121 million as at 30 June 2009 in respect of the share of forecast management expense, including interest costs, for the 2008/9, 2009/10 and 2010/11 levy years. This accrual is based on the bank's estimated share of total market protected deposits at 31 December 2007, 2008 and at 30 June 2009, respectively.

At 31 December 2008, the bank had accrued £86 million in respect of the 2008/9 and 2009/10 levy years, based on the bank's estimated share of total market protected deposits at 31 December 2007 and 2008, respectively.

However, the ultimate FSCS levy to the industry as a result of the 2008 collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the interest rate, the level of protected deposits and the population of FSCS members at the time.

**Notes on the Condensed Financial Statements (unaudited)** (continued)**9 Segment analysis**

On 1 January 2009, the group adopted IFRS 8, which replaced IAS 14 'Operating Segments'. Since then, the group's segments have been organised into five segments, UK Retail, Continental Europe Retail, Global Banking and Markets, Private Banking and Other. The segments reflect the way chief operating decision-maker reviews financial information in order to make decisions about allocating resources and assessing performance.

**Net operating income**

	UK Retail	Continental Europe Retail	Global Banking and Markets	Private Banking	Other	Inter Segment	Total
Half-year to:	£m	£m	£m	£m	£m	£m	£m
30 June 2009 .....	1,994	928	3,017	890	(400)	(26)	6,403
30 June 2008 <sup>1</sup> .....	2,939	959	1,833	794	(19)	(27)	6,479

**Profit/ (loss) before tax**

	UK Retail	Continental Europe Retail	Global Banking and Markets	Private Banking	Other	Inter Segment	Total
Half-year to:	£m	£m	£m	£m	£m	£m	£m
30 June 2009 .....	666	142	1,595	401	(446)	–	2,358
30 June 2008 <sup>1</sup> .....	1,452	221	599	365	(39)	–	2,598

**Total assets**

	UK Retail	Continental Europe Retail	Global Banking and Markets	Private Banking	Other	Inter Segment	Total
At:	£m	£m	£m	£m	£m	£m	£m
30 June 2009 .....	155,858	57,205	583,697	69,495	12,883	(104,327)	774,811
31 December 2008 <sup>1</sup> .....	145,753	69,913	781,999	88,676	5,195	(167,305)	924,231

<sup>1</sup> Comparative information has been restated to reflect the operating segments as at 30 June 2009.

**10 Related party transactions**

HSBC Bank (UK) Pension Scheme ('the Scheme') enters into swap transactions with the group to manage the inflation and interest rate sensitivity of the liabilities. At 30 June 2009, the gross notional value of the swaps was £12.5 billion (31 December 2008: £12.1 billion), the swaps had a positive fair value of £368 million (31 December 2008: £1.2 billion) to the Scheme and the group had delivered collateral of £1.4 billion (31 December 2008: £1.7 billion) to the Scheme in respect of these swaps. All swaps were executed at prevailing market rates and within standard market bid-offer spreads.

In order to satisfy diversification requirements, the Trustee has requested special collateral provisions for the swap transactions between the group and the Scheme. The collateral agreement stipulates that the Scheme never posts collateral to the group. Collateral is posted to the Scheme by the group at an amount that the Trustee is highly confident would be sufficient to replace the swaps in the event of default by the bank. Under the terms of the agreement, increases in collateral, when required, are posted by the bank on a daily basis and any reductions of collateral are repaid to the group on a monthly basis.

## Notes on the Condensed Financial Statements (unaudited) (continued)

With the exception of the special collateral arrangements detailed above, all other aspects of the swap transactions between the bank and the Scheme are on substantially the same terms as comparable transactions with third party counterparties.

In March 2009, the group purchased the minority interests in HSBC Private Bank (Suisse) SA which was owned by HSBC Investor PBRs Corporation (Delaware) a direct subsidiary of HSBC Bank USA, National Association for a cash consideration of £247m.

### 11 Share capital issuances

In January 2009 HSBC Holdings plc paid £527 million for one ordinary share of £1 of HSBC Bank plc. The consideration received was credited as fully paid in the ordinary share capital and share premium of the bank.

In March 2009 HSBC Holdings plc paid £500 million for one ordinary share of £1 of HSBC Bank plc. The consideration received was credited as fully paid in the ordinary share capital and share premium of the bank.

In May 2009 HSBC Holdings plc paid £1.75 billion for one ordinary share of £1 of HSBC Bank plc. The consideration received was credited as fully paid in the ordinary share capital and share premium of the bank.

### 12 Litigation

On 27 July 2007, the UK Office of Fair Trading ('OFT') issued High Court legal proceedings against a number of UK financial institutions, including HSBC Bank plc, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to unauthorised overdrafts (the 'charges'). The OFT has been investigating the fairness of the charges. Pending the resolution of the proceedings, the Financial Services Authority ('FSA') has granted firms (including HSBC Bank plc) a Waiver enabling them to place relevant complaints about the charges on hold and the County Courts have stayed all individual customer claims.

Court judgments given to date have confirmed that HSBC Bank plc's current and historic charges do not constitute penalties but are capable of being tested for fairness. HSBC Bank plc (and all the other financial institutions involved in the legal proceedings) has appealed this latter finding to the House of Lords and that appeal took place from 23-25 June 2009. Judgment is awaited. A wide range of outcomes of the legal proceedings is possible, depending upon the result of the appeal to the House of Lords and, if the charges are assessable, upon the outcome of the OFT's investigation and the Court's final assessment of the fairness of each charge across the period under review.

Since July 2001, there have been a variety of charges applied by HSBC Bank plc across different charging periods under the then existing contractual arrangements.

If, contrary to HSBC Bank plc's current assessment, a final decision is reached in the case that results in a liability for HSBC Bank plc, a large number of different outcomes is possible, each of which would have a different financial impact. Given that the OFT's investigation is ongoing, and that there is limited authority on how an assessment of fairness should be conducted and how any entitlement of customers to redress (following any finding of unfairness) should be calculated, HSBC Bank plc does not consider it practicable to provide a reliable estimate of the potential financial impact of an adverse decision.

In both "A Better Deal for Consumers," a White Paper presented to Parliament by the Secretary of State for Business Innovation and Skills on 2<sup>nd</sup> July 2009, and "Reforming Financial Markets," a White Paper presented to Parliament by the Chancellor of the Exchequer on 8<sup>th</sup> July 2009, specific reference was made to the OFT's case on bank charges which, it was noted, could take several years to resolve. In both Papers, the Government called on the regulators and the banks to explore whether there is a quicker way of resolving consumer complaints about the charges than pursuing further litigation, which would also provide the certainty that regulators and banks need.

HSBC Bank plc continues to consider the charges to be and to have been fair, valid and enforceable, and intends strongly to defend its position through the Court process.



## Notes on the Condensed Financial Statements (unaudited) (continued)

On 11 December 2008, Bernard L. Madoff (“Madoff”) was arrested and charged in the United States District Court for the Southern District of New York with one count of securities fraud. That same day, the US Securities and Exchange Commission (“SEC”) filed securities fraud charges against Madoff and his firm Bernard L. Madoff Investment Securities LLC (“Madoff Securities”), a broker dealer and investment advisor registered with the SEC. The criminal complaint and SEC complaint each alleged that Madoff had informed senior Madoff Securities employees, in substance, that his investment advisory business was a fraud. On 15 December 2008, on the application of the Securities Investor Protection Corporation, the United States District Court for the Southern District of New York appointed a trustee for the liquidation of the business of Madoff Securities, and removed the liquidation proceeding to the United States Bankruptcy Court for the Southern District of New York. On 9 February 2009, on Madoff’s consent, the United States District Court for the Southern District of New York entered a partial judgment in the SEC action, permanently enjoining Madoff from violating certain antifraud provisions of the US securities laws, ordering Madoff to pay disgorgement, prejudgment interest and a civil penalty in amounts to be determined at a later time, and continuing certain other relief previously imposed, including a freeze on Madoff’s assets. On 12 March 2009, Madoff pleaded guilty to 11 felony charges, including securities fraud, investment adviser fraud, mail fraud, wire fraud, three counts of money laundering, false statements, perjury, false filings with the SEC, and theft from an employee benefit plan. On 29 June 2009, Madoff was sentenced to 150 years in prison. The relevant US authorities are continuing their investigations into the alleged fraud. There remains significant uncertainty as to the facts of the alleged fraud and the total amount of assets that will ultimately be available for distribution by the Madoff Securities trustee.

Various non-US HSBC group companies provide custodial, administration and similar services to a number of funds incorporated outside the United States of America whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the aggregate net asset value of these funds (which would include principal amounts invested and unrealized gains) was US\$8.4billion.

Proceedings concerning Madoff and Madoff Securities have already been issued by different plaintiffs (including funds, fund investors, and the Madoff Securities trustee) in various jurisdictions against numerous defendants and HSBC expects further proceedings to be brought, including by the Madoff Securities trustee. Various HSBC Group companies have been named as defendants in suits in the United States, Ireland, Luxembourg, and anticipated to seek class action status and cases in the Commercial List of the Irish courts other jurisdictions. All of the cases where HSBC Group companies are named as a defendant are at a very early stage. HSBC considers that it has good defenses to these claims and will continue to defend them vigorously. HSBC is unable reliably to estimate the liability, if any, that might arise as a result of such claims.

Various HSBC Group companies have also received requests for information from various regulatory and law enforcement authorities, and from the Madoff Securities trustee, in connection with the alleged fraud by Madoff. HSBC Group companies are co-operating with these requests for information.

### **13 Interim Report 2009 and statutory accounts**

The information in this *Interim Report 2009* is unaudited and does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The *Interim Report 2009* was approved by the Board of Directors on 3 August 2009. The statutory accounts for the year ended 31 December 2008 have been delivered to the Registrar of Companies in England and Wales in accordance with section 242 of the Companies Act 1985. The auditor has reported on those accounts. Its report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did (iii) not contain a statement under section 237(2) or (3) of the Companies Act 1985.

## Independent Review Report by KPMG Audit Plc to HSBC Bank plc

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### Introduction

We have been engaged by HSBC Bank plc ('the bank') to review the condensed set of financial statements in the half-yearly interim report for the six months ended 30 June 2009 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the *Interim Report 2009* and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the bank in accordance with the terms of our engagement to assist the bank in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). Our review has been undertaken so that we might state to the bank those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The *Interim Report 2009* is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the *Interim Report 2009* in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the bank are prepared in accordance with IFRSs as adopted by the European Union ('EU'). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

### Our responsibility

Our responsibility is to express to the bank a conclusion on the condensed set of financial statements in the *Interim Report 2009* based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the *Interim Report 2009* for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

H R Horgan  
For and on behalf of KPMG Audit Plc  
Chartered Accountants  
London, United Kingdom