

Company No. 14259

2009

Interim Report

HSBC Bank plc

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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Expert Advisory Panel's report 'Measuring and disclosing the fair value of financial Instruments in markets that are no longer active' (October 2008) and the report by the Committee of European Banking Supervisors on 'Banks' Transparency on Activities and Products affected by the Recent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

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 refinance rate at a record low level of 1 per cent in June 2009.

Outlook

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.

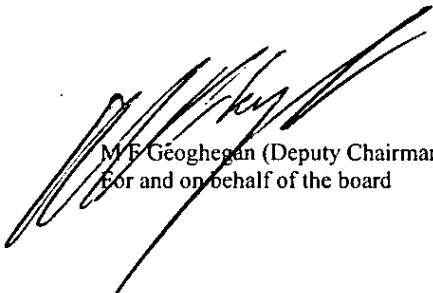
Operating conditions in the financial sector have continued to improve as the effects of government and central bank policies work through the system. Nonetheless, the timing, shape and scale of any recovery in the wider economy remains highly uncertain. Our view continues to be cautious as a number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

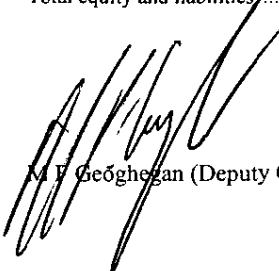
	Half-year to	
	30 June 2009	30 June 2008
	£m	£m
Interest income	6,983	9,165
Interest expense	(2,834)	(6,793)
Net interest income	4,149	2,372
Fee income	2,817	2,850
Fee expense	(777)	(741)
Net fee income	2,040	2,109
Trading income excluding net interest income	622	826
Net interest income on trading activities	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
Total operating income	9,778	7,755
Net insurance claims incurred and movement in liabilities to policyholders	(1,580)	(704)
Net operating income before loan impairment charges and other credit risk provisions	8,198	7,051
Loan impairment charges and other credit risk provisions	(1,795)	(572)
Net operating income	6,403	6,479
Employee compensation and benefits	(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)
Total operating expenses	(4,059)	(3,881)
Operating profit	2,344	2,598
Share of profit in associates and joint ventures	14	—
Profit before tax	2,358	2,598
Tax expense	(516)	(568)
Profit for the period	1,842	2,030
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	30 June 2008
	£m	£m
Profit for the period	1,842	2,030
Other comprehensive income		
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	321	(501)
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	342	(563)
– minority interests	(21)	62
	321	(501)

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

		At 30 June 2009	At 31 December 2008
	Notes	£m	£m
ASSETS			
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
Total assets		774,811	924,231
LIABILITIES AND EQUITY			
Liabilities			
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
Total liabilities		751,160	903,570
Equity			
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
Total shareholders' equity		23,059	19,923
Minority interests		592	738
Total equity		23,651	20,661
Total equity and liabilities		774,811	924,231



M. F. Geórghegan (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						
	Other Reserves						Total equity £m
	Called up share capital £m	Share premium £m	Other equity instruments £m	Retained earnings £m	Available-for-sale fair value reserve £m	Cash flow hedging reserve £m	
At 1 January	797	17,249	1,750	7,969	(11,627)	327	20,661
Share capital issued, net of costs ¹	-	2,777	-	-	-	-	2,777
Dividends to shareholders	-	-	-	(77)	-	-	(77)
Net impact of equity-settled share-based payments	-	-	-	94	-	-	94
Purchase of minority interest ²	-	-	-	-	-	-	(125)
Total comprehensive income for the period	-	-	-	76	1,723	53	321
At 30 June	797	20,026	1,750	8,062	(9,904)	380	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						
	Other Reserves						Total equity £m
	Called up share capital £m	Share premium £m	Other equity instruments £m	Retained earnings £m	Available-for-sale fair value reserve £m	Cash flow hedging reserve £m	
At 1 January as reported	797	15,499	1,000	7,587	(757)	(60)	24,999
Share capital issued, net of costs	-	1,000	-	-	-	-	1,000
Capital securities issued	-	-	750	-	-	-	750
Dividends to shareholders	-	-	-	(1,036)	-	-	(1,036)
Net impact of equity-settled share-based payments	-	-	-	177	-	-	177
Other movements	-	-	-	(13)	-	-	(13)
Total comprehensive income for the period	-	-	-	1,741	(3,165)	(151)	(501)
At 30 June	797	16,499	1,750	8,456	(3,922)	(211)	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
Cash flows from operating activities		
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 ¹	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)
Cash flows used in investing activities		
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)
Cash flows from financing activities		
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
Net increase/(decrease) in cash and cash equivalents	4,251	(9,667)
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

¹ 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
Dividends declared on ordinary shares				
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 ¹	(133)	(84)	(217)
At 30 June 2008	788	921	1,709

¹ £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 30 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	(171)	49

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			
	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
At 30 June 2009				
Assets				
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
Liabilities				
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
At 31 December 2008				
Assets				
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
Liabilities				
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
Assets				
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
Liabilities				
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 £m	Impaired £m	Impairment allowances £m	Total £m
	Strong £m	Medium £m	Sub-standard £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
Guarantees and other contingent liabilities		
Guarantees and irrevocable letters of credit pledged as collateral security	18,292	21,310
Other contingent liabilities	26	110
	18,318	21,420
Commitments		
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
	133,892	154,391

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 ¹	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 ¹	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 ¹	145,753	69,913	781,999	88,676	5,195	(167,305)	924,231

¹ 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 2nd July 2009, and "Reforming Financial Markets," a White Paper presented to Parliament by the Chancellor of the Exchequer on 8th 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

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