

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 30 May 2008 and the supplement thereto dated 23 June 2008 relating to the Debt Issuance Programme (the "**DIP Base Prospectus**"), (ii) the Base Prospectus dated 31 July 2008 relating to the Programme for the Issuance of Notes and Warrants (the "**NWP Base Prospectus**"), (iii) the Base Prospectus dated 3 September 2007 relating to the Warrant and Certificate Programme (the "**WCP Base Prospectus**") and the supplements thereto dated 6 September 2007, 29 November 2007, 8 January 2008, 4 March 2008, 7 April 2008, 9 May 2008, 2 June 2008 and 23 June 2008, and (iv) the Base Prospectus dated 31 March 2008 relating to the €15 billion Covered Bond Programme Guaranteed as to Payment of Interest and Principal by HSBC Mortgage Limited Liability Partnership (the "**CBP Base Prospectus**") and the supplements thereto dated 7 April 2008, 9 May 2008, 2 June 2008 and 23 June 2008 (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 or Warrants 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 London Stock Exchange plc - Regulated Market (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 Base Prospectuses

The eighth paragraph of each of the Summary Note in the DIP Base Prospectus, the Summary Note of the WCP Base Prospectus, the sixth paragraph of page 38 of the CBP 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 2008, the Group had total assets of £692,215 million, loans and advances to customers and banks of £312,855 million, total customer accounts and deposits by banks of £354,573 million and total equity of £25,344 million. For the six months ended 30 June 2008, the Group's operating profit was £2,598 million on total operating income of £7,755 million. The Issuer had a total capital ratio of 10.9% and a tier 1 capital ratio of 7.5% as at 31 December 2007.

Amendment to the Registration Document dated 30 May 2008

The following amendments will be made to the paragraph entitled "Management – Directors" in the Registration Document:

Name	Function	Other principal activities outside the Issuer
S P O'Sullivan	Chief Operating Officer	Director HFC Bank Limited and Marks and Spencer Financial Services plc
D C Budd	Director	Chairman, HFC Bank Limited. Group General Manager HSBC Holdings plc

The following amendment will be made to the paragraph entitled "Management - Executive Committee" in the Registration Document:

Name	Function	Other principal activities outside the Issuer
S P O'Sullivan	Chief Operating Officer	Director HFC Bank Limited and Marks and Spencer Financial Services plc

With effect from 5 August 2008 R K McGregor will cease to be Chief Financial Officer and a member of the Executive Committee of HSBC Bank plc.

With effect from 5 August 2008 I S Jenkins has been appointed European Regional Chief Financial Officer and a member of the Executive Committee of HSBC Bank plc.

There are no existing or potential conflicts of interest between any duties owed to the Bank by its directors and its Executive Committee and the private interests and/or other external duties owed by these individuals

Publication of Interim Report

On 4 August 2008, the Bank published its unaudited consolidated Interim Report for the six months ended 30 June 2008 (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.

5 August 2008

ANNEX

HSBC Bank plc

Unaudited Consolidated Interim Report for the Six Months ended 30 June 2008

Company No. 14259

2008

Interim Report

HSBC Bank plc

Interim Report 2008

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Presentation of Information

This document comprises the *Interim Report 2008* 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 report, as required by the Financial Services Authority's ('FSA') new Disclosure Rules and Transparency Rules ('DTR'). References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

In order to maintain investor focus on the Group's principal interim disclosures, as set out in HSBC Holdings plc Interim Report 2008, this interim report does not contain detailed disclosures reflecting the impact of market turmoil as recommended by the Financial Stability Forum on 'Enhancing Market and Institutional Resilience' (April 2008) or the report by the Committee of European Banking Supervisors on 'Banks' Transparency on Activities and Products affected by the Recent Market Turmoil' (June 2008).

Extensive disclosures on the effects of market turmoil 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 future 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.

Interim Management Report

Highlights

Continued strong profitability

- Profit before tax of £2,598 million, a rise of 22 per cent
- Annualised return on equity increased from 15.2 per cent to 16.6 per cent
- Cost efficiency ratio improved by more than four percentage points to 55.0 per cent
- Loan impairment charges grew at a slower rate than customer assets
- Annualised net interest margins increased by 6 basis points to 1.57 per cent

Balance sheet strength

- Customer lending grew by 13 per cent to £258 billion
- Credit quality remained stable despite economic and housing market weakness in the UK
- Customer accounts grew strongly in the first six months, up £25 billion or 9 per cent to £294 billion. The advance to deposit ratio remained stable at 88 per cent
- Deposits by banks increased by 25 per cent to £61 billion
- £2.1 billion of capital raised to support the continued growth of retail and corporate businesses across Europe
- £3.1 billion deficit taken to available-for-sale reserves in respect of the fall in value of holdings of asset-backed securities

Business review

Significant events contributing to profitability during the six months to 30 June 2008:

- the sale of a share of the Bank's UK merchant acquiring business to a joint venture with Global Payments Inc at a £215 million gain on sale.
- the sale of shares held in MasterCard Inc at a gain of £133 million.
- excluding the merchant acquiring and MasterCard gains, strong lending and deposit growth together with increased fee income from card-issuing and foreign exchange contributed to a 18% increase in Commercial Banking profit before tax.
- tightening credit and liquidity conditions in the UK led to substantial write-downs in credit-related exposures and leverage and acquisition finance loans, which outweighed strong growth in Balance Sheet Management and Global Banking revenues. Offsetting these trading losses, Rates trading grew by 115 per cent due to high customer demand for inflation protection products in the UK and France. Foreign exchange trading rose by 38 per cent as market volatility continued, and equities grew by 79 per cent, excluding the effect of the Euronext disposal last year. Further income came from fair value gains in Global Banking portfolio management.
- in France, the disposal of four mutual funds led to a gain of £35 million more than offset by the effect of the Euronext disposal in 2007. HSBC's disposal of seven regional banks completed on 2 July 2008. At the balance sheet date these subsidiaries were classified as held for sale with assets and liabilities shown separately on the balance sheet.
- in Turkey, the opening of 84 new branches supported by headcount growth of more than 1,500 since June 2007 added £35m to net operating income while investment for growth as part of the branch expansion program added an additional £60 million to expenses.
- loan impairment charges of £558 million were 10 per cent higher than in the first half of 2007, largely due to higher charges in France and Turkey following balance sheet growth, partially offset by the adoption in the UK of more stringent credit criteria and risk based pricing.
- excluding the effect of overdraft fee refunds charged in the first half of 2007 operating expenses grew £150 million, or 4.0 per cent, largely driven by exchange movements in Europe together with the effect of continued expansion of the branch network in Turkey and, to a lesser extent, increased rent charges following the sale and leaseback of properties.
- Notes 12 -14 describe the significant transactions with related parties since the *Annual Report and Accounts 2007*.

Interim Management Report

Outlook

In the UK, the economy slowed during the first half of 2008. The housing market deteriorated markedly during the first half of 2008, as the number of mortgage approvals for house purchases fell sharply and nominal house prices recorded small but persistent monthly declines. Employment growth was subdued, with some measures of unemployment increasing slightly during the second quarter. The Bank of England cut interest rates by 50 basis points during the first half of 2008, although a sharp rise in inflation to an annual rate of 3.8 per cent in May complicated the outlook for monetary policy during the second half of the year.

Having expanded by 2.6 per cent in 2007, GDP in the euro-zone rose by 2.1 per cent year-on-year in the first quarter of 2008 driven, in part, by a strong increase in business investment and a further rise in exports. Labour markets remained relatively robust with the unemployment rate for the region remaining at about 7 per cent. However, consumer spending growth was subdued and most indicators of activity deteriorated as the second quarter progressed. Inflation continued to pick up during the first half of the year, rising from an annual rate of 3.1 per cent in December 2007 to 4.0 per cent by May 2008. The European Central Bank responded by raising interest rates by 25 basis points in July, taking the repo rate to 4.25 per cent.

Against this backdrop, the outlook for the near term is highly challenging, with significant uncertainty. The UK and other economies in Europe, which had enjoyed housing market booms, have weakened in the first half of the year as inflationary pressures have adversely affected consumer confidence. The combination of ongoing restrictions on the availability of credit as financial institutions deleverage, and further weakness anticipated in the UK housing market means there is the potential for the impact of the financial markets turmoil to spread more widely into the economy. While impairment levels in Personal Financial Services and Commercial Banking in the first half of the year were lower than in 2007, continued deterioration in the economy could feed through to rising delinquency levels in the second half of the year. The bank continues to monitor the situation closely and revise its credit criteria and risk based pricing accordingly.

In financial markets, illiquidity remains an issue with no sign of resumption of normal activity levels in the securitisation markets. Reduced market liquidity and negative market sentiment will put further pressure on asset prices and raise credit default risk. Based on management's assessment of the quality of its holdings of available-for-sale asset backed securities, the vintage of underlying loans, and the level of over-collateralisation, the bank believes that the future impairment losses that will emerge are likely to be modest in relation to the fair value deficit in the available for sale fair value reserve at 30 June 2008.

Determination of the High Court legal proceedings with the UK Office of Fair Trading (OFT), in relation to charges applied to unauthorised overdrafts, is still in its early stages and a further hearing on a number of further preliminary issues was held in early July. The outcome remains uncertain. However, the bank considers the charges to be and to have been valid and enforceable and continues to defend strongly its position.

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 2008 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 current financial year ending 31 December 2008 and that have materially affected the financial position or performance of HSBC Bank plc during that period; and any changes in the related parties transactions described in the Annual Report 2007 that could do so.

S K Green (Chairman); D C Budd (Executive Director); C-H Filippi (Non-Executive Director); J D Fishburn (Independent Non-Executive Director); M F Geoghegan (Deputy Chairman); S T Gulliver (Executive Director); D D J John (Deputy Chairman and Chief Executive); R E S Martin (Independent Non-Executive Director); A R D Monro-Davies Martin (Independent Non-Executive Director); S O'Sullivan (Executive Director); P M Shawyer (Independent Non-Executive Director); P A Thurston (Managing Director, UK Banking); J F Trueman (Independent Non-Executive Director).

S K Green, *Chairman*
M F Geoghegan, *Deputy Chairman*
D D J John, *Deputy Chairman and Chief Executive*
J H McKenzie, *Secretary*

4 August 2008

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 2008 which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the *Interim Report 2008* 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 2008* is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the *Interim Report 2008* in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group 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 2008* 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 2008* for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc

Chartered Accountants

London

4 August 2008

Condensed Financial Statements (unaudited)

Consolidated income statement for the half-year to 30 June 2008

	Notes	Half-year to	
		30 June 2008	30 June 2007 (restated)
		£m	£m
Interest income		9,165	7,619
Interest expense		(6,793)	(5,708)
Net interest income		2,372	1,911
Fee income		2,850	2,735
Fee expense		(741)	(620)
Net fee income		2,109	2,115
Trading income excluding net interest income		826	1,014
Net interest income on trading activities		976	721
Net trading income		1,802	1,735
Net (expense)/ income from financial instruments designated at fair value	4	(541)	170
Gains less losses from financial investments		284	301
Dividend income		21	25
Net earned insurance premiums		1,157	663
Other operating income		551	68
Total operating income		7,755	6,988
Net insurance claims incurred and movement in liabilities to policyholders		(704)	(535)
Net operating income before loan impairment charges and other credit risk provisions		7,051	6,453
Loan impairment charges and other credit risk provisions	5	(572)	(519)
Net operating income		6,479	5,934
Employee compensation and benefits	6	(2,219)	(2,196)
General and administrative expenses		(1,398)	(1,346)
Depreciation and impairment of property, plant and equipment		(217)	(210)
Amortisation and impairment of intangible assets and impairment of goodwill		(47)	(89)
Total operating expenses		(3,881)	(3,841)
Operating profit		2,598	2,093
Share of profit in associates and joint ventures		–	44
Profit before tax		2,598	2,137
Tax expense		(568)	(495)
Profit for the period		2,030	1,642
Profit attributable to shareholders of the parent company		1,984	1,592
Profit attributable to minority interests		46	50

Condensed Financial Statements (unaudited) (continued)**Consolidated balance sheet at 30 June 2008**

		At 30 June 2008	At 31 December 2007 (restated)
	<i>Notes</i>	£m	£m
ASSETS			
Cash and balances at central banks		2,960	7,146
Items in the course of collection from other banks		2,554	2,434
Trading assets	7	171,319	153,206
Financial assets designated at fair value	7	14,164	14,969
Derivatives	7	86,492	60,470
Loans and advances to banks	5,7	54,741	60,764
Loans and advances to customers	5,7	258,114	227,687
Financial investments	7	68,992	69,528
Interests in associates and joint ventures		65	118
Goodwill and intangible assets		9,900	9,877
Property, plant and equipment		4,110	4,119
Assets held for sale	8	6,427	704
Other assets		7,392	5,232
Deferred tax assets		39	50
Prepayments and accrued income		4,946	5,976
Total assets		692,215	622,280
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	7	61,064	48,786
Customer accounts	7	293,509	268,269
Items in the course of transmission to other banks		1,695	1,975
Trading liabilities	7	120,814	117,454
Financial liabilities designated at fair value	7	15,886	15,659
Derivatives	7	85,793	61,539
Debt securities in issue	7	49,363	50,921
Retirement benefit liabilities		892	674
Liabilities of disposal groups held for sale	8	5,391	-
Other liabilities		7,202	6,659
Current tax liabilities		339	467
Liabilities under insurance contracts issued		13,517	12,251
Accruals and deferred income		5,049	6,509
Provisions		356	427
Deferred tax liabilities		234	302
Subordinated liabilities	7,14	5,767	5,205
Total liabilities		666,871	597,097
Equity			
Called up share capital		797	797
Share premium account		16,499	15,499
Other equity instruments		1,750	1,000
Other reserves		(2,327)	(29)
Retained earnings		8,019	7,340
Total equity attributable to shareholders of the parent company		24,738	24,607
Minority interests		606	576
Total equity	9	25,344	25,183
Total equity and liabilities		692,215	622,280

S K Green, *Chairman*M F Geoghegan, *Deputy Chairman*D D J John, *Deputy Chairman and Chief Executive*J H McKenzie, *Secretary*

4 August 2008

Condensed Financial Statements (unaudited) (continued)**Consolidated statement of recognised income and expense for the half-year to 30 June 2008**

	30 June 2008 £m	30 June 2007 (restated) £m
Available-for-sale investments:		
– valuation (losses)/gains taken to equity	(3,080)	151
– transferred to income statement on disposal or impairment	(246)	(249)
Cash flow hedges:		
– losses taken to equity	(195)	(40)
– transferred to income statement	(16)	20
Exchange differences arising on net investments in foreign operations.....	1,032	25
Share of changes in equity of associates and joint ventures	–	101
Actuarial (losses)/gains on post-employment benefits.....	(335)	831
	(2,840)	839
Tax on items taken directly to equity	309	(219)
Total net (expense)/income taken directly to equity during the period	(2,531)	620
Profit for the period	2,030	1,642
Total recognised income and expense for the period	(501)	2,262
Effect of adoption of IFRIC 11	–	140
	(501)	2,402
Total recognised income and expense for the period attributable to:		
– shareholders of the parent company	(566)	2,352
– minority interests	65	50

Condensed Financial Statements (unaudited) (continued)**Consolidated cash flow statement for the half-year to 30 June 2008**

	Half-year to	
	30 June 2008	30 June 2007 (restated)
	£m	£m
Cash flows (used in)/from operating activities		
Profit before tax	2,598	2,137
Adjustments for:		
– non-cash items included in profit before tax	888	1,117
– change in operating assets	(43,440)	(38,968)
– change in operating liabilities	35,783	37,425
– elimination of exchange differences ¹	(4,722)	614
– net gain from investing activities	(308)	(301)
– net gain from sale of subsidiary	(215)	–
– share of profits in associates and joint ventures	–	(44)
– contributions paid for defined benefit pension schemes	135	422
– tax paid	(476)	(471)
Net cash (used in)/from operating activities	(9,757)	1,931
Cash flows used in investing activities		
Purchase of financial investments	(24,654)	(31,476)
Proceeds from the sale of financial investments	24,070	25,139
Purchase of property, plant and equipment	(228)	(194)
Proceeds from the sale of property, plant and equipment	55	30
Purchase of goodwill and intangible assets	(78)	(59)
Net cash outflow from acquisition of and increase in stake of associates	(1)	(63)
Proceeds from disposal of associates	62	163
Net cash used in investing activities	(774)	(6,460)
Cash flows from financing activities		
Issue of ordinary share capital	1,000	510
Issue of other capital instrument.....	750	–
Purchases of HSBC Holdings plc shares to satisfy share based payment transactions	(187)	(165)
Subordinated loan capital issued	350	1,300
Dividends paid to shareholders	(1,036)	(840)
Dividends paid to minority interests	(13)	(8)
Net cash from financing activities	864	797
Net decrease in cash and cash equivalents	(9,667)	(3,732)
Cash and cash equivalents at the beginning of the period	51,235	46,721
Effect of exchange rate changes on cash and cash equivalents	2,766	(82)
Cash and cash equivalents at the end of the period.....	44,334	42,907

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

These interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as endorsed by the European Union ('EU').

The consolidated financial statements of the group at 31 December 2007 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board ('IASB'), if at any point in time new or amended IFRSs have not been endorsed by the EU.

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.

At 30 June 2008, there were no unendorsed standards effective for the period ended 30 June 2008 affecting these consolidated financial statements, and there was no significant difference between IFRSs as endorsed by the EU and IFRSs as issued by the IASB in terms of their application to the group.

At 30 June 2008, the following interpretations, effective for these consolidated financial statements, were issued by the IASB but not endorsed by the EU. Adoption of these interpretations will not have a significant effect on the consolidated financial statements:

- IFRIC 12 'Service Concession Arrangements' was issued on 30 November 2006 and is effective for annual periods beginning on or after 1 January 2008.
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' was issued on 5 July 2007 and is effective for annual periods beginning on or after 1 January 2008.

(b) Comparative information

As required by IAS 34 'Interim Financial Reporting' and the UK Disclosure and Transparency Rules, these interim consolidated financial statements include comparative balance sheet information as at the previous financial year end, and comparative income statement and equity information for the comparable period of the immediately preceding financial year.

(c) Consolidation

The interim consolidated financial statements of the group comprise the condensed financial statements of HSBC Bank plc and its subsidiaries. The method adopted in the group to consolidate its subsidiaries is described on page 37 of the *Annual Report and Accounts 2007*.

(d) 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 application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. Management believes that the group's critical accounting policies where judgement is necessarily applied are those which relate to loan impairment, goodwill impairment and the valuation of financial instruments. These critical accounting policies are described on pages 54 and 55 of the *Annual Report and Accounts 2007*.

(e) Changes in composition of the Group

Partial disposal of the point-of-sale card payment business

On 30 June 2008, the group transferred the assets and liabilities relating to its point-of-sale card payment business to a newly-established entity, HSBC Merchant Services LLP. Simultaneously, the group sold a 51% interest in the new entity to Global Payments Inc, forming a joint venture. The bank's card processing staff have become employees of the new entity. The group received consideration of £225 million and the gain of £215 million is included in 'Other operating income' in the consolidated income statement.

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

2 Accounting policies

The accounting policies adopted by the group for these interim consolidated financial statements are consistent with those described on pages 39 to 54 of the *Annual Report and Accounts 2007* except for the impact of the adoption of IFRIC 11 as described below.

On 1 January 2008, the group adopted IFRIC 11 'Group and Treasury Share Transactions'. Application of this interpretation has resulted in the group treating all share based payment transactions as equity settled. Note 16 outlines the effect of the adoption of the policy.

This change in accounting policy was made in accordance with the transitional provisions of IFRIC 11, which require that the interpretation be applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', subject to the transitional provisions of IFRS 2 'Share-based Payments'.

3 Dividends

Dividends to shareholders of the parent company were as follows:

Ordinary shares

	At 30 June 2008		At 31 December 2007	
	Per share £	£m	Per share £	£m
Dividends declared on ordinary share capital				
In respect of previous year:				
Second interim dividend	1.25	1,000	1.05	840
In respect of current year:				
First interim dividend	–	–	1.03	825
	1.25	1,000	2.08	1,665

Non-cumulative third dollar preference shares

In the first half of 2008 no dividend (2007: first half £ nil and £0.91 for the full year) was paid on the HSBC Bank plc non-cumulative third dollar preference shares.

In the first half of 2008 £36 million interest on perpetual subordinated debt was paid out at the sole and absolute discretion of the Board of Directors.

4 Net income from financial instruments designated at fair value

	Half-year to	
	30 June 2008 £m	30 June 2007 £m
Net (expense)/income arising from:		
– financial assets held to meet liabilities under insurance and investment contracts	(733)	404
– liabilities to customers under investment contracts	289	(224)
– the group's long-term debt issued and related derivatives	(105)	99
– change in own credit spread on long-term debt	35	(6)
– other changes in fair value ¹	(140)	105
– other instruments designated at fair value and related derivatives	8	(109)
Net (expense)/income from financial instruments designated at fair value	(541)	170

¹ Includes gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with the group's long-term debt issued.

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

Net income from financial instruments designated at fair value includes:

- all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities designated at fair value; and
- interest income, interest expense and dividend income in respect of:
 - financial assets and liabilities designated at fair value; and
 - derivatives managed in conjunction with the above,
 except for interest arising on the group's debt securities in issue and subordinated liabilities, together with the interest element of derivatives managed in conjunction with them, which is recognised in 'interest expense'.

5 Impairment allowances and charges

Impairment allowances and charges comprises

	Half-year to	
	30 June 2008 £m	30 June 2007 £m
Total loans and advances		
- charge to income statement	826	750
- release of allowance no longer required	(268)	(242)
	<u>558</u>	<u>508</u>
Impairment charges on debt securities and other credit risk provisions	14	11
	<u>572</u>	<u>519</u>

Movement in allowance accounts for total loans and advances

	Individually assessed £m	Collectively assessed £m	Total £m
At 1 January 2008	923	873	1,796
Amounts written off	(114)	(400)	(514)
Release of allowances no longer required	(136)	(132)	(268)
Charge to income statement	240	586	826
Exchange and other movements ¹	(125)	(6)	(131)
At 30 June 2008	<u>788</u>	<u>921</u>	<u>1,709</u>
At 1 January 2007	882	884	1,766
Amounts written off	(66)	(521)	(587)
Release of allowances no longer required	(125)	(117)	(242)
Charge to income statement	206	544	750
Exchange and other movements	(10)	(29)	(39)
At 30 June 2007	<u>887</u>	<u>761</u>	<u>1648</u>

¹ £150 million individual assessed allowances and £15 million collectively assessed allowances related to the French regional banking subsidiaries have been reclassified to assets held for sale,

The credit quality of the group's loans & advances portfolio has remained broadly consistent with the position outlined in the Annual Report & Accounts 2007.

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

6 Employee compensation and benefits

	Half-year to	
	30 June 2008	30 June 2007 (restated)
	£m	£m
Wages and salaries	1,861	1,794
Social security costs	255	243
Post-employment benefits	103	159
	2,219	2,196

Defined benefit pension plan

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.

Rises in the average yields of high quality (AA rated or equivalent) debt instruments in certain regions in the first half of 2008, together with a rise in inflation above 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.

This resulted in a net increase in the defined benefit liability for the HSBC Bank (UK) Pension Scheme of £246 million. All differences from expected changes were recognised directly in equity as actuarial gains.

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

7 Fair values of financial instruments

Fair values are determined in accordance with the methodology set out *Annual Report and Accounts 2007* in the accounting policies on pages 37 to 54, and in Note 31 on pages 109 to 116.

Fair value of financial instruments carried at fair value

	Valuation techniques			Third Party Total £m	Amounts with HSBC entities £m	Total £m
	Quoted market price £m	using observable inputs £m	with significant non-observable inputs £m			
At 30 June 2008						
Assets						
Trading assets	92,852	70,646	3,932	167,430	3,889	171,319
Financial assets designated at fair value ..	7,636	6,423	80	14,139	25	14,164
Derivatives	2,907	72,959	830	76,696	9,796	86,492
Financial investments: available-for-sale .	18,259	41,124	3,301	62,684	6,273	68,957
Liabilities						
Trading liabilities	54,685	53,180	2,244	110,109	10,705	120,814
Financial liabilities at fair value	4,015	11,791	80	15,886	–	15,886
Derivatives	3,238	70,535	411	74,184	11,609	85,793
At 31 December 2007						
Assets						
Trading assets	80,256	61,878	3,603	145,737	7,469	153,206
Financial assets designated at fair value ..	10,615	4,330	–	14,945	24	14,969
Derivatives	3,019	49,199	807	53,025	7,445	60,470
Financial investments: available-for-sale .	17,757	42,229	3,314	63,300	6,190	69,490
Liabilities						
Trading liabilities	56,494	41,237	2,366	100,097	17,357	117,454
Financial liabilities at fair value	9,481	6,178	–	15,659	–	15,659
Derivatives	2,871	48,808	842	52,521	9,018	61,539

The above excludes £24 million of financial investments carried at fair value that are included within assets held for sale and valued with significant non-observable inputs.

Amounts with HSBC entities predominantly represent trades with other parts of the HSBC Group in support of customer transactions.

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

Derivative products valued using a valuation technique with significant non-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 non-observable inputs include holdings of private equity and unlisted debt securities.

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

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

	At 30 June 2008 £m	At 31 December 2007 £m
Unamortised balance at beginning of period	90	84
Deferral on new transactions	78	102
Recognised in the income statement during the period:		
– amortisation	(25)	(26)
– subsequent to unobservable inputs becoming observable	(27)	(33)
– maturity or termination, or offsetting derivative	(24)	(37)
Unamortised balance at end of period	<u>92</u>	<u>90</u>

Fair value of financial instruments not carried at fair value

The following table provides an analysis of the basis for valuing financial assets and financial liabilities that are not measured at fair value in the consolidated financial statements:

	30 June 2008		31 December 2007	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Assets measured at amortised cost				
Loans and advances to banks	54,741	54,749	60,764	60,764
Loans and advances to customers	258,114	257,269	227,687	226,572
Financial investments: debt securities	35	34	38	38
Assets classified as held for sale				
Loans and advances to banks	164	164	–	–
Loans and advances to customers	4,398	4,343	7	7
Liabilities measured at amortised cost				
Deposits by banks	61,064	61,037	48,786	48,783
Customer accounts	293,509	293,439	268,269	268,059
Debt securities in issue	49,363	49,409	50,921	50,620
Subordinated liabilities	5,767	5,345	5,205	4,921
Liabilities classified as held for sale				
Deposits by banks	43	43	–	–
Customer accounts	5,158	5,154	–	–

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

Analysis of asset backed securities

During the period valuation losses of £3,080 million on available for sale assets were taken to equity. These primarily relate to valuation losses on asset backed securities. The table shows the group's market risk exposure to asset backed securities (including those carried at fair value through profit and loss and those classified as available for sale).

Asset Backed Securities	Gross principal ²	CDS gross protection ³	Net Principal exposure ⁴	Carrying Amount ⁵	Gross principal	CDS gross protection	Net Principal exposure	Carrying Amount
	£m	£m	£m	£m	£m	£m	£m	£m
	30 June 2008				31 December 2007			
- High grade ¹	34,603	(1,821)	32,782	27,207	40,072	(2,575)	37,497	35,448
- rated C to A	3,356	(594)	2,762	1,772	1,146	(182)	964	899
- not publicly rated...	4,994	(3,421)	1,573	1,442	4,294	(3,397)	897	851
Total asset backed securities.....	42,953	(5,836)	37,117	30,421	45,512	(6,154)	39,358	37,198
	Unrealised gains and losses ⁶	Realised gains and losses ⁷	Impairment ⁸	Fair Value movements through equity ⁹				
	£m	£m	£m	£m				
	Period ended 30 June 2008							
- High grade ¹	(304)	(9)	(14)	(2,547)				
- rated C to A.....	(172)	(1)	-	(347)				
- not publicly rated...	(50)	-	-	69				
Total asset backed securities.....	(526)	(10)	(14)	(2,825)				
Other available-for-sale securities				(255)				
Total				(3,080)				

Included in the above table is carrying amount of £19,513 million held through SPEs that are consolidated by the bank. Although the bank includes these assets in full on its balance sheet, the risks arising from the assets are mitigated to the extent of third party investment in notes issued by those SPEs.

¹ High grade assets rated AA or AAA.

² The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.

³ A CDS is a credit default swap. CDS protection principal is the gross principal of the underlying instrument that is protected by CDSs.

⁴ Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from monoline protection, except where this protection is purchased with a CDS.

⁵ Carrying amount of the net principal exposure.

⁶ Unrealised gains and losses on the net principal exposure (see footnote 4) recognised during the half year in the income statement as a result of changes in the fair value of the asset, adjusted for the cumulative amount of transfers to realised gains and losses as a result of the disposal of assets.

⁷ Realised gains and losses on the net principal exposure (see footnote 4) recognised during the half year in the income statement as a result of the disposal of assets.

⁸ Impairment losses recognised in the income statement in respect of the net principal amount (see footnote 4) of available-for-sale and held-to-maturity assets.

⁹ Fair value gains and losses on the net principal exposure (see footnote 4) recognised in equity during the half year as a result the changes in the fair value of available-for-sale assets, adjusted for transfers from the available-for-sale reserve to the income statement as a result of impairment, and adjusted for transfers to realised gains and losses following the disposal of assets.

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

8 Non-current assets and disposal group held for sale

	At 30 June 2008 £m	At 31 December 2007 £m
Assets of disposal groups held for sale	5,848	78
Non-current assets held for sale		
Property, plant and equipment.....	526	586
Investment Properties	33	31
Financial assets	18	7
Other	2	2
Total assets classified as held for sale	<u>579</u>	<u>626</u>
Assets held for sale	<u>6,427</u>	<u>704</u>

Disposal group held for sale

In 2008 the held for sale category include assets of £5,848 million, and liabilities of £5,391 million, in respect of seven regional French banking subsidiaries held for sale. As described in note 17, the group has subsequently completed the sale of these banks. At 31 December 2007, assets of Partnership Cards portfolios with a carrying amount of £78 million were classified as disposal groups held for sale.

Non-current assets held for sale

On 31 May 2007 the group entered into a contract for the sale and leaseback of the property and long leasehold land comprising 8 Canada Square, London to Metrovacesa, S.A. ('Metrovacesa') for £1,090 million. Under the terms of this arrangement, the group leased the building back from Metrovacesa for a period of 20 years at an annual rent of £43.5 million (2007: £43.5 million), with annual upward-only rent reviews linked to the RPI (all items) and subject to an annual maximum and minimum increase of 6 per cent and 2.5 per cent, respectively. In the normal course of business, the group provided finance to Metrovacesa in respect of the debt element of this transaction at arm's length market rates in the form of a bridging loan of £810 million (2007: £810 million), secured by a charge on the property. The bridging loan had an original maturity date of 30 November 2007 and was extended with a new facility provided by the group with a maturity date of 30 November 2008. The equity portion of £280 million was settled in cash by Metrovacesa on 31 May 2007.

The sale has not been recognised in the financial statements at 30 June 2008 because the group has retained a significant interest by virtue of the loan provided to part-finance the purchase of the building. Accordingly, 8 Canada Square is presented within 'Non-current assets held for sale' with a carrying value of £432 million (2007: £432 million). The equity portion received from Metrovacesa is presented in the balance sheet as deferred income with a value at 30 June 2008 of £275 million (2007: £280 million). It is expected that the sale will be recognised by the group when the bridging loan is repaid.

9 Equity

	30 June 2008											
	Called up share capital £m	Share premium £m	Other Equity Instrument £m	Retained earnings £m	Other reserves					Total share- holders' equity £m	Minority interests £m	Total equity £m
					Available- for-sale reserve £m	Cash flow hedging reserve £m	Foreign exchange reserve £m	Share- based payment reserve £m	Associates and joint ventures £m			
At 1 January as reported	797	15,499	1,000	7,348	(757)	(60)	357	239	-	24,423	576	24,999
Impact of adoption of IFRIC 11 at 1 January 2008	-	-	-	(8)	-	-	-	192	-	184	-	184
Share capital issued, net of costs ¹	-	1,000	-	-	-	-	-	-	-	1,000	-	1,000
Capital securities issued during the period	-	-	750	-	-	-	-	-	-	750	-	750
Profit for the year attributable to shareholders	-	-	-	1,984	-	-	-	-	-	1,984	-	1,984
Dividends to shareholders of the parent company	-	-	-	(1,036)	-	-	-	-	-	(1,036)	-	(1,036)
Actuarial losses on defined benefit plans	-	-	-	(334)	-	-	-	-	-	(334)	(1)	(335)
Fair value losses taken to equity	-	-	-	-	(3,080)	(195)	-	-	-	(3,275)	-	(3,275)
Amounts transferred to the income statement	-	-	-	-	(246)	(16)	-	-	-	(262)	-	(262)
Charge to the income statement in respect of equity settled share-based payment transactions	-	-	-	-	-	-	-	102	-	102	-	102
Repayment of capital contribution received in respect of equity-settled share based payments	-	-	-	-	-	-	-	(96)	-	(96)	-	(96)
Tax on items taken directly to or transferred from equity ..	-	-	-	91	158	60	-	-	-	309	-	309
Transfer to minority interest	-	-	-	-	3	-	-	-	-	3	(3)	-
Profit attributable to minority interests	-	-	-	-	-	-	-	-	-	-	46	46
Dividends to minority interests	-	-	-	(13)	-	-	-	-	-	(13)	(32)	(45)
Exchange differences	-	-	-	-	-	-	1,012	-	-	1,012	20	1,032
Other	-	-	-	(13)	-	-	-	-	-	(13)	-	(13)
At 30 June	797	16,499	1,750	8,019	(3,922)	(211)	1,369	437	-	24,738	606	25,344

¹ All shares issued in the half-year to 30 June 2008 were issued to HSBC Holdings plc. See note 13 for further details.

30 June 2007(restated)												
	Called up share capital £m	Share premium £m	Other Instrument £m	Equity Retained earnings £m	Other reserves					Total share- holders' equity £m	Minority interests £m	Total equity £m
					Available- for-sale fair value reserve £m	Cash flow hedging reserve £m	Foreign exchange reserve £m	Share- based payment reserve £m	Associates and joint ventures £m			
At 1 January as reported	797	14,558	-	4,966	523	(32)	(737)	199	125	20,399	539	20,938
Impact of adoption of IFRIC 11 at 1 January 2007 ¹	-	-	-	10	-	-	-	130	-	140	-	140
New capital subscribed, net of costs	-	510	-	-	-	-	-	-	-	510	-	510
Preference shares recognised in the year.....	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year attributable to shareholders (restated)	-	-	-	1,592	-	-	-	-	-	1,592	-	1,592
Dividends to shareholders of the parent company	-	-	-	(840)	-	-	-	-	-	(840)	-	(840)
Actuarial gains/(losses) on defined benefit plans	-	-	-	830	-	-	-	-	-	830	1	831
Fair value gains/(losses) taken to equity	-	-	-	-	151	(40)	-	-	101	212	-	212
Amounts transferred to the income statement	-	-	-	-	(249)	20	-	-	(122)	(351)	-	(351)
Charge to the income statement in respect of equity settled share-based payment transactions	-	-	-	-	-	-	-	107	-	107	-	107
Repayment of capital contribution received in respect of equity-settled share based payments	-	-	-	-	-	-	-	(82)	-	(82)	-	(82)
Tax on items taken directly to or transferred from equity ...	-	-	-	(251)	22	10	-	-	-	(219)	-	(219)
Transfer to minority interest	-	-	-	-	7	-	-	-	-	7	7	14
Profit attributable to minority interests	-	-	-	-	-	-	-	-	-	-	50	50
Dividends to minority interests	-	-	-	(7)	-	-	-	-	-	(7)	(46)	(53)
Exchange differences	-	-	-	-	-	-	26	-	-	26	(1)	25
Transfers from associates.....	-	-	-	(16)	120	-	-	-	(104)	-	-	-
Other	-	-	-	(4)	-	-	-	-	-	(4)	-	(4)
At 30 June	797	15,068	-	6,280	574	(42)	(711)	354	-	22,320	550	22,870

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

10 Contingent liabilities and contractual commitments

	At 30 June 2008 £m	At 31 December 2007 £m
Contingent liabilities and financial guarantee contracts		
Guarantees and irrevocable letters of credit pledged as collateral security ¹ :	19,229	18,972
Other contingent liabilities	<u>81</u>	<u>75</u>
	19,310	19,047
Commitments		
Documentary credits and short-term trade-related transactions	2,178	1,621
Forward asset purchases and forward deposits placed	29	38
Undrawn note issuing and revolving underwriting facilities	20	19
Undrawn formal standby facilities, credit lines and other commitments to lend		
– 1 year and under	116,765	108,149
– over 1 year	<u>38,006</u>	<u>36,192</u>
	156,998	146,019

¹ Including financial guarantee contracts.

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 15. 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.

11 Segment analysis

Net operating income and profit before tax is presented below by geography, the group's primary basis of segmental reporting.

Net operating income

	United Kingdom £m	Continental Europe £m	Rest of the world £m	Intra-segment £m	Total £m
Half-year to:					
30 June 2008	3,809	2,503	173	(6)	6,479
30 June 2007	3,737	1,995	202	–	5,934

Profit before tax

	United Kingdom £m	Continental Europe £m	Rest of the world £m	Intra-segment £m	Total £m
Half-year to:					
30 June 2008	1,464	1,052	82	–	2,598
30 June 2007	1,172	838	127	–	2,137

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

12 Related Party Transactions

Inflation and Interest rate swap with HSBC

HSBC Bank (UK) Pension Scheme enters into swap transactions with the group to manage the inflation and interest rate sensitivity of the liabilities. At 30 June 2008, the gross notional value of the swaps was £10.5 billion (31 December 2007: £10.5 billion), the swaps had a positive fair value of £491 million (31 December 2007: £124 million) to the scheme and the group had delivered collateral of £547 million (31 December 2007: £378 million) 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 bank and the scheme. The collateral agreement stipulates that the scheme never posts collateral to the bank. Collateral is posted to the scheme by the bank 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 bank on a monthly basis.

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.

13 Share Capital and other equity instruments issuances

In April 2008 the bank issued £750 million of perpetual subordinated debt to HSBC Holdings plc, which is classified as equity under IFRSs. The interest payment is at the full discretion of the bank and may be paid yearly. The first interest payment date falls on 30 April 2009. The perpetual subordinated debt may only be redeemed at the option of the bank.

In May 2008 HSBC Holdings plc paid £1 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.

14 Debt instrument issuances

In March 2008 the bank issued £350 million of perpetual subordinated debt to HSBC Holdings plc, which is classified as a liability under IFRSs. The interest payment is at the discretion of the bank and may be paid yearly. The first interest payment date falls on 31 March 2009. The perpetual subordinated debt may only be redeemed at the option of the bank. Under certain circumstances the bank has the right to make all future payments of interest on the loan mandatory.

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

15 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 the bank, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to unauthorised overdrafts (the 'charges').

Certain preliminary issues in these proceedings were heard in a trial in the Commercial Division of the High Court on 17 January 2008 and judgement was given on 24 April 2008. This confirmed that the bank's current charges are capable of being tested for fairness but are not capable of being penalties. The bank is appealing that finding. A further hearing took place from 7 to 9 July 2008, at which the Court considered further preliminary issues relating to the bank's historic charges. Judgement on these preliminary issues is awaited.

The proceedings remain at an early stage and may, allowing for appeals on the preliminary issues (and/or subsequently on substantive issues), take a number of years to conclude. A wide range of outcomes is possible, depending, initially, upon the outcome of the preliminary issues in the Commercial Court and/or Court of Appeal and, to the extent applicable, upon the Court's subsequent assessment of each charge across the period under review. Since July 2001, there have been a variety of charges applied by the bank across different charging periods under the then existing contractual arrangements. The bank considers the charges to be and to have been valid and enforceable, and intends strongly to defend its position.

If, contrary to the bank's current assessment, the Court should ultimately (after appeals) reach a decision adverse to the bank that results in a liability for it, a large number of different outcomes is possible, each of which would have a different financial impact. Based on the facts currently available, and a number of assumptions, the bank estimates that the financial impact could be approximately £350 million (31 December 2007: £300 million). To make an estimate of the potential financial impact at this stage with any precision is extremely difficult, owing to (among other things) the complexity of the issues, the number of permutations of possible outcomes, and the early stage of the proceedings. In addition, the assumptions made by the bank may prove to be incorrect.

16 IFRIC 11 – Restatement

As a result of the adoption of IFRIC 11, share awards granted to employees of the group by Group entities previously accounted for as cash-settled share based payment transaction are now accounted for as equity-settled share based payment transactions. The effects of the restatement are as follows:

	As previously reported £m	Effect of adoption of IFRIC 11 £m	As restated £m
Balance Sheet as at 31 December 2007			
Other liabilities.....	6,843	(184)	6,659
Other reserves.....	(221)	192	(29)
Retained earnings.....	7,348	(8)	7,340
Income Statement half year to 30 June 2007			
Employee compensation and benefits.....	(2,193)	(3)	(2,196)
Profit for the period.....	1,645	(3)	1,642

Notes on the Condensed Financial Statements (unaudited) (continued)**17 Events after the balance sheet date**

On 2 July 2008 the group completed the sale of seven French regional banking subsidiaries to Banque Fédérale des Banques Populaires (BFBP) for €2.1 billion (£1.7 billion), following an announcement by senior management on 29 February and signature of a share purchase agreement on 26 May. The group's profit on sale before tax was £545 million which will be recognised in the second half of 2008. At 30 June the aggregate total assets attributable to these French regional banking subsidiaries were £5.8 billion, and they generated net profits after tax of £48 million for the six months ended 30 June 2008. On 2 July the group signed an agreement with the seven banks and BFBP to provide them with transitional services.

18 Interim Report 2008 and statutory accounts

The information in this *Interim Report 2008* is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 ('the Act'). The *Interim Report 2008* was approved by the Board of Directors on 4 August 2008. The statutory accounts for the year ended 31 December 2007 have been delivered to the Registrar of Companies in England and Wales in accordance with section 242 of the Act. 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 Act.