13 April 2018

HSBC BANK PLC

CERTAIN FINANCIAL INFORMATION IN RELATION TO HSBC BANK PLC AND HSBC UK BANK PLC

The Financial Services (Banking Reform) Act 2013 and associated secondary legislation and regulatory rules require UK deposit-taking banks with more than £25 billion of “core deposits” (broadly from individuals and small to medium-sized businesses) to separate their UK retail banking activities from their other wholesale and investment banking activities by 1 January 2019. The resulting UK ring-fenced bank entities need to be legally distinct, operationally separate and economically independent from non-ring-fenced bank entities and must operate in accordance with the Prudential Regulation Authority (the “**PRA**”)’s ring-fencing rules.

HSBC UK Bank plc (“**HSBC UK**”), which is the HSBC Group’s UK ring-fenced bank, was incorporated in December 2015 and was set up to hold the qualifying components of HSBC Bank plc’s (“**HSBC Bank**”) UK Retail Banking and Wealth Management (“**RBWM**”), Commercial Banking (“**CMB**”) and Global Private Banking (“**GPB**”) businesses. The UK Global Banking and Markets (“**GB&M**”) business and current overseas subsidiaries and branches will remain in HSBC Bank, which will become HSBC’s non-ring-fenced bank. HSBC UK is a wholly-owned subsidiary of HSBC UK Holdings Limited, a wholly owned subsidiary of HSBC Bank’s parent company HSBC Holdings plc (“**HSBC Holdings**”). HSBC UK received a restricted banking licence from the PRA in July 2017 and is expected to receive an unrestricted banking licence in June 2018 pursuant to an agreed mobilisation plan.

In order to complete the ring-fencing project, HSBC Bank will need to undertake a number of legal transfers. These include the transfer of customer and non-customer assets, liabilities and contractual arrangements to HSBC UK. The majority of these transfers will be made via a court-approved ring-fencing transfer scheme (the “**RFTS**”) as provided for in Part VII of the UK Financial Services and Markets Act 2000, as amended. In addition to these transfers, certain items will be transferred via alternative arrangements. In March 2017, HSBC Bank’s share premium totalling £20.7 billion was converted to distributable reserves through a court-approved process in preparation for the transfer of businesses and related capital to HSBC UK.

The RFTS process was initiated in January 2018 with the submission of an application to the UK High Court. It is expected that the final court hearing to sanction the RFTS will take place in May 2018 and HSBC UK will commence operations on 1 July 2018. Immediately prior to commencing operations, three transfers will take place on 1 July 2018 under an agreement between HSBC Holdings, HSBC Bank, HSBC UK and HSBC UK Holdings Limited: (1) the transfer of the qualifying components of HSBC Bank’s UK RBWM and CMB businesses and related items to HSBC UK through the RFTS; (2) the transfer of HSBC Bank’s qualifying subsidiaries, notably Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Limited and a number of asset finance entities to HSBC UK as part of the RFTS; and (3) the transfer of HSBC Bank’s excess reserves to HSBC UK through a capital contribution. In addition, HSBC Bank will be undergoing a number of additional transfers and re-organisation activities (including capital contributions) during 2018, which are designed to ensure that HSBC Bank and HSBC UK can operate as separate legal entities from 1 July 2018.

Furthermore, as part of the HSBC Group’s reorganisation plans, it is expected that HSBC Bank will become a wholly-owned subsidiary of HSBC UK Holdings Limited in the second half of 2018.

The cost to HSBC Bank of the ring-fencing project was £0.3 billion in 2017 (compared to £0.1 billion in 2016).

The unaudited combined balance sheet of the businesses to be transferred to HSBC UK as part of HSBC Bank's implementation of UK structural reform requirements (the "**Ring-fence Bank**") as at 31 December 2017 and the unaudited pro forma balance sheet of HSBC Bank as at 31 December 2017 set out below have been prepared so as to illustrate the effect of the above transfer and anticipated additional transfer and re-organisation activities (including capital contributions), based on the assets, liabilities and shareholder's equity of HSBC Bank as at 31 December 2017.

HSBC Bank expects that it will have a smaller balance sheet as a result of the structural changes described above, including a reduction in its risk weighted assets, and a reduced and potentially more volatile revenue stream given that HSBC Bank's GB&M business will represent a higher proportion of its business compared to the position prior to such changes. Furthermore, the structural changes to HSBC Bank could result in changes to HSBC Bank's credit rating and increases in its cost of funding.

The unaudited pro forma balance sheet of HSBC Bank as at 31 December 2017 has been prepared for illustrative purposes only and, due to the nature of such information, it addresses a hypothetical situation and therefore does not represent HSBC Bank's actual financial position at any time.

It should also be noted that, both the unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017 and the unaudited pro forma balance sheet of HSBC Bank as at 31 December 2017 should not be construed as representing HSBC Bank's or HSBC UK's actual assets, liabilities or shareholders' equity on 1 July 2018 or indicative of their respective financial position on 1 July 2018 or thereafter.

As at 31 December 2017, HSBC Bank and its consolidated subsidiaries (the "**Group**") had a CRD IV transitional common equity tier 1 capital ratio of 11.8 per cent and a CRD IV transitional total capital ratio of 16.9 per cent. Following completion of the legal separation of HSBC UK from HSBC Bank on 1 July 2018, HSBC Bank intends for its common equity tier 1 ratio and total capital ratio to exceed the minima required by CRD IV and other applicable requirements. During the first quarter of 2018, HSBC Bank increased its common equity tier 1 capital by £1.9 billion and its additional tier 1 capital by £0.8 billion through capital contributions from HSBC Holdings. As at the date hereof, following completion of the legal separation of HSBC UK from HSBC Bank, the targeted common equity tier 1 capital ratio of HSBC Bank is expected to be between 12 per cent. and 13 per cent.

Unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017

Background

The unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017 set out below is not the actual balance sheet of HSBC UK but reflects the combined retail operations of HSBC Bank in the UK (excluding the Channel Islands and Isle of Man) and includes the qualifying components of HSBC Bank's UK RBWM, CMB and GPB businesses, relevant Corporate Centre activities and qualifying subsidiaries, notably Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Limited and a number of asset finance entities, to be transferred to HSBC UK on 1 July 2018. The unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017 has been extracted from the consolidation schedules used in preparing audited consolidated financial statements of the Group for the year ended 31 December 2017 with certain adjustments and estimations to reflect that the HSBC UK business did not comprise a separate legal entity or a separate group of entities as at 31 December 2017.

The unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017 is prepared on a basis that combines the assets and liabilities of the Ring-fence Bank by applying the principles underlying the consolidation procedures of International Financial Reporting Standard ("**IFRS**") 10 'Consolidated Financial Statements' as at 31 December 2017. IFRS does not provide for the preparation of combined financial information, accordingly, in preparing the unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017, certain accounting conventions commonly used for the preparation of combined or carve out financial information have been applied. The effects of IFRS 9 'Financial Instruments' are not incorporated as these are only applicable from 1 January 2018. The most material of these assumptions and judgements are set out in the notes to the unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017 below. As a result, subsequent financial information reported by HSBC UK may differ from that presented in the unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017 below.

The establishment of HSBC UK will be accounted for as a group restructuring. The HSBC Group's accounting policy for such transactions requires that assets and liabilities are recognised by HSBC UK at their existing carrying amounts in the financial statements of HSBC Bank. Equity reserves, relating to items such as cash flow hedging and available-for-sale fair values will not be recycled by HSBC Bank, but will be transferred across to continue the existing accounting basis in HSBC UK, as if HSBC UK had always been in place.

Unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017

		2017
	Notes	*£billion*
Assets	1	
Liquid assets	2	59.1
Derivatives	3	0.1
Loans and advances to customers		162.0
Pension asset	4	6.1
Prepayments, accrued income and other assets	5	2.1
Goodwill and intangible assets	6	3.6
Total assets		**233.0**
Liabilities and equity		
Liabilities	1	
Customer accounts		203.5
Items in the course of transmission to other banks		0.4
Financial liabilities designated at fair value	7	1.0
Derivatives	3	0.2
Accruals, deferred income and other liabilities	5	1.6
Provisions	8	1.1
Deferred tax liabilities	9	1.2
Subordinated liabilities	7	3.9
Total liabilities		**212.9**
Total equity	10	**20.1**
Total liabilities and equity		**233.0**

Notes:

1. HSBC UK will combine the retail operations of HSBC Bank in the UK (excluding the Channel Islands and Isle of Man) and includes the qualifying components of HSBC Bank's UK RBWM, CMB and GPB businesses, relevant Corporate Centre activities and qualifying subsidiaries, notably Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Limited and a number of asset finance entities. The assets and liabilities of the Ring-fence Bank have been derived from the consolidated balance sheet of the Group as at 31 December 2017 based on the perimeter of the business that will be transferred on 1 July 2018. To the extent that there are material allocations and adjustments made these are further explained in notes 2 to 10.

2. Liquid assets include cash and balances at central banks, items in the course of collection from other banks and financial investments. The amount of liquid assets to be transferred on 1 July 2018 will depend on the net amount of qualifying assets and liabilities transferred to HSBC UK following completion of the legal separation from HSBC Bank.

3. The Ring-fence Bank derivative assets and liabilities relate solely to hedging instruments that will be used to manage the Ring-fence Bank's own risk.

4. The surplus on the UK principal defined benefit plan has been recognised entirely in the unaudited combined balance sheet of the Ring-fence Bank, as an immaterial amount will be retained by HSBC Bank. The transfer of such surplus to HSBC UK will be based on actuarial valuations.

5. For a number of high volume operational financial assets (£1.7 billion) and liabilities (£1.4 billion) the underlying businesses are not readily identifiable and these balances have been allocated equally between HSBC Bank and the Ring-fence Bank. Other financial assets and liabilities have been allocated to the Ring-fence Bank based on the underlying businesses to which such financial assets and liabilities relate.

6. While goodwill is an accounting concept and therefore will not form part of the legal transfer of assets and liabilities to HSBC UK, consistent with the accounting approach for other assets and liabilities, it is necessary to take a relative proportion of the goodwill accounting value previously recognised by the Group. Goodwill has therefore been allocated to the Ring-fence Bank based on estimated risk weighted assets. Following an acquisition, goodwill loses its original identity and is managed and monitored by cash generating units, which for the Group are the global businesses that have benefited from those historical acquisitions. Given a significant percentage of the global businesses that supported the goodwill will be transferred to HSBC UK, it therefore follows that a significant portion of the goodwill is also transferred with those businesses.

7. Tier 2 capital allocated to Ring-fence Bank in order to meet the requisite capital ratios. The tier 2 allocation is based on information available and assumptions made at the date of preparation, as such, subsequent amounts reported may differ.

8. Provisions have been allocated to the Ring-fence Bank based on the underlying business line that generated an obligating event resulting in the provision.

9. No current tax has been recognised on the unaudited combined balance sheet of the Ring-fence Bank as at 31 December 2017. HSBC UK will begin to accrue a current tax asset or liability arising from the business transferred from 1 July 2018, following separation from HSBC Bank. Deferred tax has been recognised in respect of the temporary differences arising on the underlying assets and liabilities transferred.

10. Total equity includes share capital, share premium, additional tier 1 capital instruments and reserves. Reserves include accounting reserves of approximately £7.6 billion relating to the recognition of goodwill and the pension asset which do not form part of regulatory capital. Equity is based on information available and assumptions made at the date of preparation, as such, subsequent amounts reported may differ.

Unaudited pro forma financial information in respect of HSBC Bank as at 31 December 2017

Background

The unaudited pro forma balance sheet of HSBC Bank as at 31 December 2017 set out below has been prepared to illustrate the effect of the transfers referred to above, together with a number of additional transfers and re-organisation activities planned for 2018, as if each of the foregoing had taken place on 31 December 2017.

The unaudited pro forma balance sheet of HSBC Bank as at 31 December 2017 has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not and will not represent HSBC Bank's actual balance sheet. The unaudited pro forma balance sheet of HSBC Bank as at 31 December 2017 does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006.

Prospective investors in securities issued by HSBC Bank should read the whole of the relevant offering documentation and information incorporated by reference therein and not rely solely on the unaudited pro forma financial information set out below.

Unaudited pro forma consolidated balance sheet of HSBC Bank as at 31 December 2017

	Group[1]	**Adjustment for ring-fencing transfers to HSBC UK[2]**	**Pro forma[3]**
	£billion	*£billion*	*£billion*
Assets			
Liquid assets[1]	157.6	(59.1)	98.5
Trading assets	145.7	-	145.7
Financial assets designated at fair value	9.3	-	9.3
Derivatives	143.3	(0.1)	143.2
Loans and advances to banks........	14.1	-	14.1
Loans and advances to customers.	280.4	(162.0)	118.4
Reverse repurchase agreements – non-trading	45.8	-	45.8
Pension asset	6.1	(6.1)	-
Prepayments, accrued income, other assets and current tax assets	10.2	(2.1)	8.1
Interest in associates and joint ventures	0.3	-	0.3
Goodwill and intangible assets.......	5.9	(3.6)	2.3
Deferred tax assets[4]	0.1	0.3	0.4

Total assets	**818.8**	**(232.7)**	**586.1**
Liabilities and equity			
Liabilities			
Deposits by banks	29.3	-	29.3
Customer accounts	381.6	(203.5)	178.1
Repurchase agreements – non-trading	37.8	-	37.8
Items in the course of transmission to other banks	1.1	(0.4)	0.7
Trading liabilities	106.5	-	106.5
Financial liabilities designated at fair value	18.2	(1.0)	17.2
Derivatives	140.1	(0.2)	139.9
Debt securities in issue	13.3	-	13.3
Accruals, deferred income, other liabilities and current tax liabilities	6.7	(1.6)	5.1
Provisions	1.8	(1.1)	0.7
Liabilities under insurance contracts	21.0	-	21.0
Deferred tax liabilities[4]	0.9	(0.9)	-
Subordinated liabilities	16.5	(3.9)	12.6
Total liabilities	**774.8**	**(212.6)**	**562.2**
Total equity[3]	**44.0**	**(20.1)**	**23.9**
Total liabilities and equity	**818.8**	**(232.7)**	**586.1**

Notes:

1. The consolidated balance sheet of the Group has been directly extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2017 included in HSBC Bank's 2017 Annual Report and Accounts. Liquid assets include cash and balances at central banks (£97.6 billion), items in the course of collection from other banks (£2.0 billion) and financial investments (£58.0 billion).
2. This adjustment reflects the separation from HSBC Bank of its combined retail operations in the UK (excluding the Channel Islands and Isle of Man) and includes the qualifying components of HSBC Bank's UK RBWM, CMB and GPB businesses, relevant Corporate Centre activities and qualifying subsidiaries, notably Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Limited and a number of asset finance entities. The financial information used in this adjustment has been extracted from the unaudited combined balance sheet of the Ring-fence Bank included above, with the exception of the adjustment to deferred tax assets and deferred tax liabilities as described in note 4.
3. As noted above, following completion of the legal separation of HSBC UK from HSBC Bank on 1 July 2018, HSBC Bank intends for its common equity tier 1 ratio and total capital ratio to exceed the minima required by CRD IV and other applicable requirements. During the first quarter of 2018, HSBC Bank increased its common equity tier 1 capital by £1.9 billion and its additional tier 1 capital by £0.8 billion through capital contributions from HSBC Holdings. The unaudited pro forma consolidated balance sheet of HSBC Bank as at 31 December 2017 above does not include the effect of these capital contributions from HSBC Holdings.
4. Deferred tax liabilities of £1.2 billion have been recognised in the Ring-fence Bank in respect of temporary differences arising on the underlying assets and liabilities transferred. This has been reflected in the unaudited pro forma consolidated balance sheet of HSBC Bank as at 31 December 2017 as an adjustment of £0.9 billion to deferred tax liabilities and an adjustment to deferred tax assets of £0.3 billion.

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