

# **HSBC Bank Capital Funding (Sterling 1) L.P.**

**Annual Report and Financial Statements for the year ended  
31 December 2023**



# Annual Report and Financial Statements for the year ended 31 December 2023

## Contents

<a href="#">1</a>	Report of the General Partner
<a href="#">3</a>	Independent Auditor's Report
<a href="#">7</a>	Income statement
<a href="#">7</a>	Statement of comprehensive income
<a href="#">8</a>	Balance sheet
<a href="#">9</a>	Statement of cash flows
<a href="#">9</a>	Statement of changes in partner's interests
<a href="#">10</a>	Notes to the financial statements

## Report of the General Partner

HSBC Bank (General Partner) Limited ('the General Partner') presents the annual report and audited financial statements of HSBC Bank Capital Funding (Sterling 1) L.P. ('the Partnership') for the year ended 31 December 2023.

### Partnership

The Partnership was established on 31 October 2003 and is registered as a limited partnership in Jersey under the Limited Partnerships (Jersey) Law 1994. The Partnership commenced activities on 31 October 2003, with the first closing acceptance of committed contributions being on the 5 November 2003.

### Principal activities

The Principal activities of the Partnership are:

- to create and issue Preferred Securities;
- to use capital contributions to acquire and hold Subordinated Notes; and
- to enter into and perform any contracts and agreements required to accomplish the foregoing activities.

The issue of the 5.844% Non-cumulative Step-up Perpetual Preferred Securities ('Preferred Securities') by the Partnership is guaranteed, on a subordinated basis, by HSBC Bank plc. The proceeds of the issue were used by the Partnership to subscribe for the 5.844% cumulative Step-up Subordinated Notes ('Subordinated Notes') issued by HSBC Bank plc. Under the terms of the Preferred Securities and the Subordinated Notes, (IBOR) reform, the Deed of Amendment dated 24th September 2021 means the interest post 5 November 2031 will be bi-annually at a rate of 2.0366% above the compounded daily SONIA rate.

The Preferred Securities previously qualified as regulatory capital for HSBC Bank plc. The Preferred Securities, together with the guarantee, are intended to provide investors with rights to income and capital distributions upon liquidation of HSBC Bank plc that are equivalent to the rights they would have if they had purchased non-cumulative perpetual preference shares of HSBC Bank plc. The Preferred Securities are admitted to trading on the regulated market, listed on the Luxembourg Stock Exchange. The Preferred Securities ceased to qualify as regulatory capital for HSBC Bank plc on both a solo and consolidated basis from 1 January 2022 and therefore a Regulatory Event (as per the terms and conditions relating to the Preferred Securities) has occurred and is currently continuing. This provides the General Partner with an optional right to redeem the Preferred Securities at a price determined in accordance with the terms and conditions relating to the Preferred Securities. Any such redemption, if it were to be triggered by the General Partner, would also be subject to the satisfaction of certain conditions that are set out in the terms and conditions relating to the Preferred Securities. To date, the General Partner has taken no decision to exercise the option to redeem the Preferred Securities.

HSBC faces elevated geopolitical risk, with the ongoing Russia-Ukraine and Israel-Hamas wars. Both may have significant global economic and political consequences. The Israel-Hamas war has led to renewed volatility in energy prices, and recent attacks on commercial shipping in the Red Sea and the counter-measures taken to improve security have begun to disrupt supply chains. These developments have the potential to halt or reverse the recent decline in inflation especially in Europe and North America. The Russia-Ukraine war has continued to elevate geopolitical instability, which could have continued ramifications for the Group and its customers. HSBC is monitoring and assessing the impacts of these wars. However, as at the report date there has been no material impact from these macroeconomic factors on the Partnership's financial performance or cash flows. The General Partner will continue to monitor the effect these macroeconomic factors have on HSBC Bank plc and on the Partnership.

### Registered Office of the Partnership

HSBC House

Esplanade

St Heller

Jersey JE4 8UB

### Independent Auditor

PricewaterhouseCoopers LLP ('PWC') has been engaged to perform a non-statutory audit of the Partnership, in accordance with the terms of the LP agreement.

### Statement of General Partner's Responsibilities

The General Partner is responsible for preparing the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union for the purpose of filing audited financial statements with the Luxembourg Stock Exchange and in accordance with the Limited Partnership Agreement dated 31 October 2003.

The General Partner must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Partnership and of the profit or loss of the Partnership for that period. In preparing these financial statements, the General Partner is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- stating whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- making judgements and accounting estimates that are reasonable and prudent; and
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business



## HSBC Bank Capital Funding (Sterling 1) L.P.

The General Partner is responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The General Partner is also responsible for keeping adequate accounting records that are sufficient to show and explain the Partnership's transactions and disclose with reasonable accuracy at any time the financial position of the Partnership.

So far as the Directors of the General Partner are aware, there is no relevant audit information of which the Partnership's auditor is unaware, and each Director of the General Partner has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

With regard to Regulation 2004/109/EC of the European Union (the 'EU Transparency Directive'), the Directors of the General Partner confirm to the best of their knowledge that the audited financial statements for the year ended 31 December 2023 give a true and fair view of the assets, liabilities, financial position and result of the Partnership as required by the applicable accounting standards. The report of the General Partner gives a true and fair view of important events that have occurred during the year and their impact on the financial statements. The principal risks and uncertainties faced by the Partnership are disclosed in Note 8 of these financial statements.

The General Partner is responsible for presenting the financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format ('ESEF Regulation').

### Directors

The Directors of the General Partner who were in office during the year and up to the date of signing the financial statements were as follows:

Name	Appointed
Jonathan Thomas Langan	24/8/2017
Richard Boyns	4/4/2020
William Arthur Charles Paine	13/10/2022

### Director

**HSBC Bank (General Partner) Limited**

acting in its capacity as General Partner of

**HSBC Bank Capital Funding (Sterling 1) L.P.**



Signed on behalf of

HSBC Bank (General Partner) Limited

28 March 2024

- The maintenance and integrity of the Partnership information published on the Luxembourg Stock Exchange website is the responsibility of the General Partner of the Partnership; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent audit report to General Partner of HSBC Bank Capital Funding (Sterling 1) L.P.

## Report on the audit of the financial statements

### Opinion

In our opinion, HSBC Bank Capital Funding (Sterling 1) L.P.'s financial statements:

- give a true and fair view of the state of the Partnership's affairs as at 31 December 2023 and of its result and cash flows for the year then ended;

- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2023; the Income statement, the Statement of comprehensive income, the Statement of cash flows and the Statement of changes in partner's interests for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies. Our opinion is consistent with our reporting to the General Partner.

### Basis for opinion

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

### Independence

We remained independent of the Partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by either the FRC's Ethical Standard or Article 5(1) of Regulation (EU) No 537/2014 were not provided.

We have provided no non-audit services to the Partnership in the period under audit.

### Our audit approach

#### Context

The Partnership was established as a means of raising funding via the issuance of 5,844% non-cumulative step-up perpetual preferred securities (the "Preferred Securities"), listed on the Luxembourg Stock Exchange. The capital contribution received from the issuance of the Preferred Securities were used to acquire 5,844% cumulative step-up subordinated notes (the "Subordinated Notes"), issued by HSBC Bank plc. The activities of the Partnership are conducted primarily by reference to the Limited Partnership Agreement. The Preferred Securities are guaranteed by HSBC Bank plc.

#### Overview

##### Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including evaluation of history of misstatement through fraud or error).
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the financial statements.
- We identified all material classes of transactions, account balances and disclosures, including those that were considered qualitatively material, and conducted our work over these accordingly.

##### Key audit matters

- Measurement of the Subordinated Notes.

##### Materiality

- Overall materiality: GBP 7,060,000 (2022: GBP 7,060,000) based on 1% of total assets.
- Performance materiality: GBP 5,300,000 (2022: GBP 5,300,000).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a



# HSBC Bank Capital Funding (Sterling 1) L.P.

separate opinion on these matters. This is not a complete list of all risks identified by our audit. The key audit matters below are consistent with last year

Key audit matter	How our audit addressed the Key audit matter
Measurement of the Subordinated Notes. The Subordinated Notes are classified as financial assets at amortised cost.	We reviewed the underlying documentation available in relation to the Subordinated Notes and assessed the appropriateness of the conclusion to measure the Subordinated Notes at amortised cost.
The impairment assessment is based on management's assessment of the expected credit loss ('ECL') for the Subordinated Notes, which is subjective. The General Partner has concluded that the ECL is immaterial and therefore no impairment charge has been recorded.	We tested receipts on the Subordinated Notes.  We gained an understanding of the processes and controls implemented by the General Partner when assessing ECL.
Refer to notes 1.2 (b) and 3.	We performed stress testing on the ECL to determine if the impact was material and, in what circumstances, the ECL may be material.  We have no matters to note in relation to the above procedures.

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Partnership, the accounting processes and controls, and the industry in which it operates. The accounting records of the Partnership are maintained by HSBC Bank plc's finance team in Jersey, who are involved in the day-to-day operation of the Partnership. We identified and tested all material financial statement line items and disclosures, including those that were considered qualitatively material. The procedures performed provided sufficient evidence overall material classes of transactions, account balances and disclosures in the financial statements.

## The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Partnership's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Partnership's financial statements.

## Materiality

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

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

Overall Partnership materiality	GBP 7,060,000 (2022: 1%)
How we determined it	1 % of total assets
Rationale for benchmark applied	As the Partnership was established as part of a funding structure, funded by the Preferred Securities, it would follow that users may focus their attention on the Partnership's total assets balance that generate the cash flows necessary to make payments on the Preferred Securities. We therefore believe it is appropriate to use a benchmark of 1 % of total assets.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to GBP 5,300,000 (2022: GBP 5,300,000) for the Partnership financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the General Partner that we would report to them misstatements identified during our audit above GBP 353,000 (2022: GBP 353,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the General Partner's assessment of the Partnership's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the General Partner's going concern assessment to evaluate its consistency with our understanding of the operations of the limited Partnership and the general market. Obtaining an understanding of the circumstances in which the Preferred Securities may be redeemed and the Partnership then wound up.
- Confirming that payments in respect of the Preferred Securities have been guaranteed, on a subordinated basis by HSBC Bank plc.
- Considering the independent credit ratings of HSBC Bank plc.
- Considering the appropriateness of the disclosures made by the General Partner in respect of the going concern of the entity.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Partnership's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the General Partner's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.



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

Our responsibilities and the responsibilities of the General Partner with respect to going concern are described in the relevant sections of this report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The General Partner is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### Responsibilities for the financial statements and the audit

#### Responsibilities of the General Partner for the financial statements

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

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

#### Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Partnership and industry, we identified that the principal risks of non-compliance with laws and regulations related to any breach of the Limited Partnership Agreement, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Limited Partnerships (Jersey) Law 1994. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- enquiring with the General Partner as to any actual or suspected instances of fraud or non-compliance with laws and regulations;
- inspecting and testing significant transactions or financial statement disclosures to check they were in accordance with the terms of the Limited Partnership Agreement;
- reviewing the minutes of meetings of the board of directors of the General Partner; and
- performing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements in accordance with ISAs (UK) is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Partnership to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Partnership audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication..

## Use of this report

This report, including the opinion, has been prepared for and only for the General Partner of the Partnership to enable them to fulfil their obligation to file audited financial statements with the Luxembourg Stock Exchange and in accordance with the Limited Partnership Agreement dated 31 October 2003 in accordance with our engagement letter dated 15 March 2024 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Partnership, save where expressly agreed by our prior consent in writing.

## Individual responsible for the audit

The engagement leader on the audit resulting in this independent auditors' report is Andrew Batty.

## Other required reporting

### Report on other legal and regulatory requirements

We have checked the compliance of the financial statements of the Partnership as at 31 December 2023, with the relevant statutory requirements set out in the ESEF Regulation that are applicable to financial statements. That is, for the Partnership:

- The financial statements are prepared in a valid xHTML format;

In our opinion, the financial statements of the Partnership as at 31 December 2023, identified as [hbcfs-2023-12-31-en.zip], have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

## Appointment

We were appointed by the General Partner on 29 March 2022 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2021 to 31 December 2023.

*Privatehouse Coopers LLP*

PrivatehouseCoopers LLP  
Chartered Accountants  
Birmingham  
28 March 2024



## Financial statements

### Income statement for the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
<b>Income</b>			
Interest income on cumulative step-up subordinated notes			
<b>Total income</b>	10	40,908	40,908
<b>Expenditure</b>		40,908	40,908
Interest expense on non-cumulative step-up perpetual preferred securities			
<b>Total operating expenses</b>		(40,908)	(40,908)
<b>Net result for the year</b>		<u>—</u>	<u>(40,908)</u>

All operations are from continuing operations.

### Statement of comprehensive income

There has been no other comprehensive income or expenses for the year ended 31 December 2023, other than the result stated above (2022: £ nil). As a result, net result for the year represents total comprehensive income for both current and prior year.

Balance sheet at 31 December 2023

	Notes	2023 £'000	2022 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Financial Assets at amortised cost	2	700,000	700,000
Capital contribution due from the Preferential Limited Partner		1	1
<b>Current assets</b>			
Other receivables	4	6,388	6,388
<b>Total assets</b>		<b>706,389</b>	<b>706,389</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Non-cumulative step-up perpetual preferred securities	6	700,000	700,000
<b>Current liabilities</b>			
Other payables	5	6,388	6,388
<b>Total liabilities</b>		<b>706,388</b>	<b>706,388</b>
<b>Partner's interests</b>			
Preferential Limited partner's capital	7	1	1
<b>Total partner's interests</b>		<b>1</b>	<b>1</b>
<b>Total partner's interests and liabilities</b>		<b>706,389</b>	<b>706,389</b>

The accompanying notes on pages 10 to 14 form an integral part of these financial statements.

The financial statements were approved by the Directors of the General Partner on 28 March 2024 and were signed on its behalf by:

Director



28 March 2024



## Statement of cash flows for the year ended 31 December 2023

	2023	2022
	£'000	£'000
<b>Cash flows from operating activities</b>		
<b>Net result for the year</b>		
<b>Adjustments for:</b>		
Interest received on cumulative step-up subordinated notes	—	—
Interest paid on non-cumulative step-up perpetual preferred securities	40,908	40,908
Net cash generated from operating activities	(40,908)	(40,908)
<b>Net increase in cash and cash equivalents</b>	—	—
Cash and cash equivalents at 1 January	—	—
<b>Cash and cash equivalents at 31 December</b>	—	—

The notes on pages 10 to 14 form an integral part of these financial statements.

## Statement of changes in partner's interests

There has been no movement in Capital and Reserves for the year ended 31 December 2023, as detailed in the Balance sheet report on page 8 (2022: no movement).

## Notes on the Financial Statements

### 1 Basis of preparation and significant accounting policies

#### 1.1 Basis of preparation

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

The financial statements of HSBC Bank Capital Funding (Sterling 1) L.P. ('the Partnership'), established in Jersey, have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

At 31 December 2023, there were no unendorsed standards effective for the year ended 31 December 2023 affecting these financial statements and the Partnership's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

##### Standards adopted during the year ended 31 December 2023

###### IFRS adoptions

There have been no new standards adopted during the period to 31 December 2023 that have impacted the final statements of the Partnership.

###### (b) Future accounting developments

###### Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs that are effective from 1 January 2024. The Partnership expects they will have an insignificant effect on the financial statements when adopted.

###### (c) Presentation of information

The financial statements are prepared on the historical cost and going concern basis, as the General Partner's view is that the Partnership is expected to be able to meet its liabilities as they fall due for the next twelve months and is not expected to cease trading in the next twelve months.

#### 1.2 Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Partnership's financial statements for the year ended 31 December 2023

##### (a) Subordinated notes interest income and preferred securities interest expense

Subordinated notes interest income and preferred securities interest expense are accounted for in accordance with the effective interest rate basis.

##### (b) Cumulative Step-up Subordinated Notes ('Subordinated Notes') measured at amortised cost

A financial asset that is not designated at fair value through profit and loss, is measured at amortised cost if it is held to collect contractual cash flows and if its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding. Cumulative step-up subordinated notes are considered as financial assets measured at amortised cost. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gains and losses on derecognition is recognised in profit or loss.

###### Impairment

The impairment model under IFRS 9 requires the recognition of provision for impairment losses based on expected credit losses. For Financial assets measured at amortised cost the Partnership calculates expected credit losses calculated by reference to market credit spreads of similar rated third party banks. This was deemed immaterial and has not been reflected in the financial statements.

##### (c) Non-cumulative Step-up Perpetual Preferred Securities ('Preferred Securities')

Preferred Securities are classified as liabilities and are recognised at amortised cost and are brought into account on an effective interest rate basis. The Partnership has considered the characteristics of the preferred securities and the requirements of IAS 32 and considers that these securities are most correctly identified as liabilities.

##### (d) Operating Segments

IFRS 8 'Operating Segments' ('IFRS 8') requires an entity to disclose information about its segments which enables users to evaluate the nature and financial performance of its business activities and the economic environment in which it operates. An operating segment is a component of the Partnership that engages in business activities from which it may earn revenues and incur expenses. The Board of Directors of the General Partner ('the Board') performs regular reviews of the operating results of the Partnership as a whole and makes decisions using financial information at the entity level. Accordingly, the Board believes that the Partnership has only one operating segment.

##### (e) Use of assumptions and critical accounting estimates and judgements

The results of the Partnership are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The accounting policies used in the preparation of the financial statements are described in detail in Note 1.2(a) to (f) accordingly.

When preparing the financial statements, it is the General Partner's responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent.



## HSBC Bank Capital Funding (Sterling 1) L.P.

The key judgements made by the General Partner in preparing the financial statements are:  
Classification of the Preferred Securities as a liability

Whilst the Preferred Securities are non-cumulative, the Subordinated Notes are cumulative and the Partnership must use available cash to first pay the distribution on the Preferred Securities. In addition, the obligations of the Partnership are guaranteed by HSBC Bank plc and the Preferred Securities have no maturity date, with any optional redemption being in the control of the General Partner and not the Partnership. As a result, the General Partner has concluded that the Partnership does not have the unconditional right to avoid delivery of cash or another financial asset and therefore that the Preferred Securities should be classified as a liability and not as equity. In addition, the General Partner has concluded that the prepayment feature is closely related to the host contract and therefore does not require bifurcation.

### Classification of the Subordinated Notes

The General Partner has concluded that the Subordinated Notes should be measured at amortised cost under IFRS 9, having assessed the business model and underlying cash flows against the relevant criteria below:

Business model test: Given the nature of the Partnership's activities, the applicable business model was identified as being one that holds to collect the cash flows of the Subordinated Notes.

Solely payments of principal and interest ('SPPI') test: It was then necessary to confirm that cash flows received in respect of the Subordinated Notes represent SPPI. In assessing SPPI the General Partner concluded that, given the terms of the Subordinated Notes, including a prepayment option, the SPPI test was met and therefore the Subordinated Notes should be measured at amortised cost under IFRS 9.

The General Partner does not consider there to be any critical accounting estimates impacting the financial statements.

### (f) Determination of fair value

Fair values are determined according to the following hierarchy:

- (a) Level 1 - quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- (b) Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- (c) Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. For these instruments, the fair value derived is more judgemental. 'Unobservable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur, but it generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

Furthermore, the majority of the fair value derived from a technique with significant unobservable inputs may in some cases still be attributable to the observable inputs. Consequently, the impact of uncertainty in the determination of the unobservable inputs will generally only give rise to a degree of uncertainty about the overall fair value of the financial instrument being measured.

The Partnership does not hold any financial instruments which are carried at fair value.

## 2 Expenses and taxation

Under the terms of the Partnership Agreement, the General Partner has agreed to meet all operating expenses of the Partnership, including the audit fees. Therefore, such expenses are not incorporated within the income statement. The Partnership has no employees.

HSBC Bank plc, in its capacity as issuer of the Subordinated Notes, has agreed to settle all expenses relating to the issue of the notes. Any tax liability arising on the activity of the Partnership will be borne by the individual Limited Partners.

## 3 Cumulative step-up subordinated notes

Listed: Series B		2023	2022
£700,000,000 5.844% cumulative step-up subordinated notes due 2048		£'000	£'000
At cost		700,000	700,000
At 31 Dec		700,000	700,000

The impairment model under IFRS 9 requires the recognition of provision for impairment losses based on expected credit losses. For Financial assets measured at amortised cost the Partnership calculates expected credit losses calculated by reference to market credit spreads of similar rated third party banks. This was deemed immaterial and has not been reflected in the financial statements.

The cumulative Step-up Subordinated Notes due on 30 November 2048 were issued by HSBC Bank plc on 5 November 2003. The Subordinated Notes are admitted to the Official List of the UK Listing Authority and to trading on the gilt-edged and fixed interest market of the London Stock Exchange.

The Subordinated Notes constitute direct, unsecured, subordinated obligations of HSBC Bank plc ranking *pari passu* without any preference among themselves. In the event of the winding up of HSBC Bank plc, any claim of a Note holder for payment of principal and accrued interest in respect of any Note shall be treated as if the amount payable had been converted into preference shares of £1 each of HSBC Bank plc.

The Subordinated Notes bear interest annually on 5 November at the fixed rate of 5.844% per annum up until 5 November 2031. The Subordinated Notes may be redeemed at the option of HSBC Bank plc on 5 November 2031, or on each Distribution date thereafter. Following the Deed of Amendment dated 24th September 2021 the interest post the call date on 5th November 2031 will be bi-annually at a rate of 2.0366% above the compounded daily SONIA rate for the relevant interest period.



## HSBC Bank Capital Funding (Sterling 1) L.P.

### 4 Other receivables

Amounts falling due within one year		
Interest receivable on cumulative step-up subordinated notes	6,388	6,388
At 31 Dec	6,388	6,388

### 5 Other payables

Amounts falling due within one year:	
Interest payable on non-cumulative step-up perpetual preferred securities	

### 6 Non-cumulative step-up perpetual preferred securities

	2023	2022
	£'000	£'000
At cost:		
700,000 5.844% non-cumulative step-up perpetual preferred securities of £1,000 each	700,000	700,000
At 31 Dec	700,000	700,000

The Non-cumulative Step-up Perpetual Preferred Securities were issued to the Limited Partners on 5 November 2003. The Preferred Securities are admitted to trading on the regulated market and listed on The Official List of the Luxembourg Stock Exchange. Payments in respect of the Preferred Securities have been guaranteed, on a subordinated basis by HSBC Bank plc pursuant to a subordinated guarantee dated 5 November 2003.

HSBC Bank plc has covenanted that if it is prevented under certain circumstances from paying distributions on the Preferred Securities in full, it will not pay dividends or other distributions in respect of its ordinary shares, or effect repurchase or redemption of its ordinary shares, until after a distribution has been paid in full.

A substitution event will occur if i) on the distribution date in November 2048 any of the Preferred Securities are outstanding and no notice has been given to redeem the then outstanding Preferred Securities on or before the distribution date in November 2048, ii) HSBC Bank plc's total capital ratio, calculated on a solo and consolidated basis, falls below the regulatory minimum ratio required, or iii) should the financial condition of HSBC Bank plc deteriorate. Then the Directors of HSBC Bank plc expect, as soon as reasonably practicable thereafter, that the Preferred Securities will be substituted by Preference Shares of HSBC Bank plc having economic terms which are in all material respects equivalent to those of the Preferred Securities and the guarantee taken together.

The Preferred Securities ceased to qualify as regulatory capital for HSBC Bank plc on both a solo and consolidated basis from 1 January 2022 and therefore a Regulatory Event (as per the terms and conditions relating to the Preferred Securities) has occurred and is currently continuing. This provides the General Partner with an optional right to redeem the Preferred Securities at a price determined in accordance with the terms and conditions relating to the Preferred Securities. Any such redemption, if it were to be triggered by the General Partner, would also be subject to the satisfaction of certain conditions that are set out in the terms and conditions relating to the Preferred Securities. To date, the General Partner has taken no decision to exercise the option to redeem the Preferred Securities.

#### **Fair value of financial instruments not carried at fair value.**

The fair value of the preferred securities is as mentioned below, this is determined from the Bloomberg ask price. The securities are not actively traded, therefore the fair value of these liabilities are classified as level 2 as per the fair value hierarchy.

There is no active market for the cumulative step-up subordinated notes. Accordingly, the fair value of these assets is determined to be the same as the fair value of the preferred securities, due to the similar characteristics of these instruments. The fair value of the cumulative step-up subordinated notes is determined by reference to observable market data, therefore these assets are classified as level 2 per the fair value hierarchy.

There have been no transfers within the hierarchy during the year. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

	2023	2022
	£'000	£'000
<b>The fair value of financial liabilities carried at amortised cost</b>	<b>734,433</b>	<b>726,782</b>
700,000 5.844% non-cumulative step-up perpetual preferred securities of £1,000 each	<b>734,433</b>	<b>726,782</b>
<b>At 31 Dec</b>		

The carrying value of all other financial assets and liabilities approximates their fair values.

The Preferred Securities entitle investors to receive non-cumulative distributions annually on 5 November at the fixed rate of 5.844% per annum up until 5 November 2031, and thereafter, following the Deed of Amendment dated 24th September 2021, bi-annually at a rate of 2.0366% above the compounded daily SONIA rate for the relevant distribution period.



## HSBC Bank Capital Funding (Sterling 1) L.P.

The maturity profile of the Partnership's contractual outflows of financial liabilities as at the year-end was as follows:

	2023	2022
Due between 3 and 12 months	£'000	£'000
Due between 1 and 5 years	40,925	40,908
Due after 5 years	163,631	163,631
At 31 Dec	1,520,957	1,561,862
	1,725,513	1,766,421

The Preferred Securities may be redeemed at the option of the General Partner on 5 November 2031, or on each distribution date thereafter. The above maturity analysis includes fixed rate interest of 5.844% up to the maturity date of the subordinated step-up cumulative notes on 30 November 2048, which is considered to be a realistic estimate of the interest rate for the period following the optional redemption date due to the perpetuity of the securities.

The Partnership is under no contractual obligation to redeem the Preferred Securities before 30 November 2048; accordingly, the maturity profile presented assumes no earlier redemption takes place. Earlier redemption would occur if HSBC Bank plc redeemed the subordinated step-up cumulative notes before their stated maturity date of 30 November 2048.

## 7 Partnership interest

The following information provides a summary of the main rights of the Limited Partners and the Preferential Limited Partner ('HSBC Preferential L.P. (UK)'). It does not attempt to provide details of all circumstances, terms and conditions, and reference should also be made to the detailed provisions contained within the Limited Partnership Agreement and the Limited Partnerships (Jersey) Law 1994.

### Income distributions

The Limited Partners are entitled to receive income distributions, on the distribution dates, and at the interest rates applicable for each series of Preferred Securities as stated in Note 6.

The Preferential Limited Partner is entitled to receive income on the distribution dates based on the excess of interest received in respect of the financial assets held by the Partnership over the distributions payable to the Limited Partners, as holders of the Preferred Securities.

### Capital entitlement

The Preferential Limited Partner is entitled to receive a capital payment on liquidation of the Partnership. This payment will be based on the residual assets of the Partnership following payment of any Redemption Price or Liquidation Distribution to the Limited Partners, as holders of the Preferred Securities and after payment of all other debts.

### Voting rights

The Preferential Limited Partner and the Limited Partners are only entitled to attend or vote at a meeting of partners in the Partnership in very limited circumstances and are not entitled to participate in the management of the Partnership.

## 8 Management of financial risk

The Partnership's financial instruments comprise investments and various items that arise through the Partnership's activities. The main purpose of the financial instruments is to generate income in order to provide a return to the holders of the Preferred Securities.

The main risks arising from the Partnership's financial instruments are interest rate risk, liquidity risk and credit risk. The Partnership is also exposed to foreign currency risk and therefore no foreign exchange sensitivity analysis has been carried out. Exposure to price risk is also minimal.

### Interest rate risk

In the General Partner's opinion there is no significant interest rate risk to the Partnership. From the Partnership's perspective any change in the interest rate attached to the cumulative step-up subordinated notes would be matched by an equal and opposite change in the interest rate attached to the non-cumulative step-up perpetual preferred securities. Consequently, a change in interest rates would have no significant net effect on profit or loss and/or equity.

IFRS 7 requires disclosure of 'a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date'. As stated, whilst the financial instruments held by the Partnership are separately exposed to interest rate risk, the Partnership itself is not exposed to interest rate risk overall. Therefore, in the General Partner's opinion, no sensitivity analysis in respect of interest rates is required to be disclosed.

### Liquidity risk

The Preferred Securities are redeemable at the option of the General Partner on 5 November 2031 or on each distribution date thereafter. Additionally, as a Regulatory Event has occurred and is continuing, the General Partner may exercise the option to redeem the securities at an earlier date, subject to the satisfaction of certain conditions set out in the terms and conditions. To date, the General Partner has taken no decision to exercise the option to redeem the Preferred Securities. The liabilities of the Partnership in respect of the distributions on the Preferred Securities are at all times subject to the condition that there are sufficient legally available resources to support the payment of a distribution. The General Partner believes that liquidity risk for the Partnership has been minimised.

### Credit risk

The Partnership is exposed to the credit risk of the issuer of the subordinated step-up cumulative notes, HSBC Bank plc. In the opinion of the General Partner, the credit rating of HSBC Bank plc is strong and therefore the credit risk is acceptable. The Partnership's own credit risk is mitigated by means of a guarantee from HSBC Bank plc. Standard and Poors has assessed the credit rating of HSBC Bank plc as A+.

## HSBC Bank Capital Funding (Sterling 1) L.P.

### Financial Liabilities

	2023	2022
Fixed rate financial liabilities (£'000)	700,000	700,000
Effective Average Interest rate (%)	5.844	5.844
Effective average interest rate period for which rate is fixed (years)	7.80	8.80

Further information relating to the interest rate and the maturity of the fixed rate financial liabilities can be found in Note 6.

Accordingly, the fixed rate financial assets and the fixed rate financial liabilities are matched exactly.

## 9 Capital Management

The Partnership's assets and liabilities and the relative underlying terms and conditions are exactly matched, with the exception that the Notes are cumulative whilst the Preferred Securities are non-cumulative. The Partnership's transactions are designed to enable the Partnership to pay its liabilities as they fall due only, without realising a return on capital. The level of interest income and interest expense are fixed and were established when the Partnership was set up in order that the Partnership realises a net result of nil each year and therefore there is no need for the monitoring of return on capital.

There were no changes in the Partnership's approach to capital management during the year.

The Partnership is not subject to externally imposed capital requirements.

## 10 Related party transactions

There have been no transactions involving Directors of the General Partner and connected persons.

Specific transactions and balances with HSBC Bank plc are as follows:

Income statement		
Interest income	2023	2022
	£'000	£'000
	40,908	40,908
Assets		
Other receivables (Note 4)	6,388	6,388

HSBC Bank plc, Guernsey Branch has acted as custodian for HSBC Bank Capital Funding (Sterling 1) L.P. during the year.

All expenses of the Partnership other than interest expense are borne by the General Partner.

## 11 Parent undertakings

The immediate parent undertaking is HSBC Bank plc which is the smallest group to consolidate these financial statements with the immediate controlling party being HSBC Bank (General Partner) Limited. The ultimate parent undertaking is HSBC Holdings plc. Copies of the Annual Report and Accounts of HSBC Holdings plc for the year 2023 may be obtained by writing to Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; or from the HSBC web site, [www.hsbc.com](http://www.hsbc.com)

## 12 Events after the statement of financial position sheet date

There are no significant events after the balance sheet date that would require disclosure or adjustment to the 31 December 2023 Financial Statements.