HSBC UK Bank plc

Pillar 3 Disclosures at 31 March 2024

HSBC

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Presentation of information

This document comprises the 31 March 2024 Pillar 3 disclosures for HSBC UK Bank plc ('the bank') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries.

'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC UK ordinary shares and capital securities issued by HSBC UK classified as equity.

The abbreviations '£m' and '£bn' represent millions and billions (thousands of millions) of pounds sterling respectively.

A full list of abbreviations is provided on page 7.

This document may contain certain forward-looking statements with respect to the financial condition,environment, social and governance ("ESG") related matters, result of operations and business of the group including the strategic priorities; financial, investment and targets.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'will', 'targets', '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. HSBC UK makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

This document should be read in conjunction with our Annual Report and Accounts 2023, which has been published on the HSBC Group website at www.hsbc.com/investors.

Introduction

Regulatory framework for disclosures

Our Pillar 3 Disclosures at 31 March 2024 comprise both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with part Eight of CRR II, and use the PRA's disclosure templates and instructions. They are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part. We refer to the regulatory requirements of the PRA Rulebook, Capital Requirements Regulation and Directive, and the CRR II regulation (EU 2019/876) as 'CRR II'.

We are supervised on a consolidated basis in the United Kingdom ('UK') by the Prudential Regulation Authority ('PRA').

We have calculated capital for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee ('Basel') as implemented in the UK. Any references to European Union ('EU') regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.

The Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by the requirements in Pillar 3 on market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel III framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Further details of our risk management processes and approach can be found on page15 of our Annual Report and Accounts 2023.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. We are progressing with a comprehensive programme to strengthen our global processes, improve consistency and enhance controls across regulatory reports. The ongoing programme of work focuses on our material regulatory reports and is being phased over a number of years. This programme includes data enhancement, transformation of the reporting systems and an uplift to the control environment over the report production process.

While this programme continues, there may be further impacts on some of our reported regulatory ratios, such as the common equity tier ('CET1'), liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'), as we implement recommended changes and continue to enhance our controls across the process.

Comparatives and references

To give insight into movements during the year, we provide comparative figures, commentary on variances and flow tables for capital requirements. In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk-weighted assets ('RWAs') by article 92(1) of CRR II. Narratives are included to explain quantitative disclosures where necessary.

Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we will restate comparatives.

Where disclosures have been enhanced, or are new, we do not generally restate or provide comparatives. Wherever specific rows and columns in the tables prescribed are not applicable or immaterial to our activities, we omit them and follow the same approach for comparatives.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant locations.

We publish our Pillar 3 disclosures quarterly on the Group website www.hsbc.com.

Governance

The HSBC UK Pillar 3 disclosures at 31 March 2024 comply with the PRA Rulebook.They are approved by the HSBC UK Disclosure Committee as delegated by the HSBC UK Board and are governed by the group's disclosure policy framework as approved by the Audit Committee ('AC').

The information presented in this Pillar 3 report is unaudited.

Key metrics

The table 1 below sets out the key regulatory metrics covering the group's available capital (including buffer requirements and ratios), RWAs, leverage ratio, LCR and NSFR. Unless stated otherwise, figures have been prepared on an IFRS 9 transitional basis. Capital figures and ratios are reported on a CRR II transitional basis for capital instruments and the leverage ratio is calculated using the CRR II end point basis for capital. The calculation for LCR is the average of the preceding 12 months for each quarter and for the NSFR it is the average of the preceding four quarters.

Table 1: Key metrics (KM1/IFRS9-FL)

		At				
Ref		**31 Mar 2024**	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
	Available capital (£m)					
1	Common equity tier 1 ('CET1') capital	**14,611**	14,224	14,818	14,382	14,317
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**14,599**	14,194	14,794	14,382	14,317
2	Tier 1 capital	**16,864**	16,479	17,072	16,632	16,567
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**16,852**	16,449	17,048	16,632	16,567
3	Total capital	**20,053**	19,772	20,140	19,671	19,625
	Total capital as if IFRS 9 transitional arrangements had not been applied	**20,041**	19,742	20,117	19,671	19,625
	Risk-weighted asset ('RWAs') (£m)					
4	Total RWAs	**102,218**	101,478	100,563	99,098	99,930
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**102,206**	101,450	100,542	99,098	99,930
	Capital ratios (%)					
5	CET1	**14.3**	14.0	14.7	14.5	14.3
	CET1 as if IFRS 9 transitional arrangements had not been applied	**14.3**	14.0	14.7	14.5	14.3
6	Tier 1	**16.5**	16.2	17.0	16.8	16.6
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**16.5**	16.2	17.0	16.8	16.6
7	Total capital	**19.6**	19.5	20.0	19.9	19.6
	Total capital as if IFRS 9 transitional arrangements had not been applied	**19.6**	19.5	20.0	19.9	19.6
	Additional own funds requirements based on supervisory review and evaluation process ('SREP') as a percentage of RWAs (%)					
UK-7a	Additional CET1 SREP requirements	**2.2**	2.2	2.2	2.2	2.2
UK-7b	Additional AT1 SREP requirements	**0.7**	0.7	0.8	0.8	0.8
UK-7c	Additional T2 SREP requirements	**1.0**	1.0	1.0	1.0	1.0
UK-7d	Total SREP own funds requirements (TSCR ratio)	**11.9**	11.9	12.0	12.0	12.0
	Combined buffer requirement as a percentage of RWAs (%)					
8	Capital conservation buffer requirement	**2.5**	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer	**1.9**	1.9	1.9	1.0	0.9
UK 10a	Other systemically important institution buffer	**1.0**	1.0	1.0	1.0	1.0
11	Combined buffer requirement	**5.4**	5.4	5.4	4.5	4.4
UK-11a	Overall capital requirements	**17.3**	17.3	17.4	16.5	16.4
12	CET1 available after meeting the total SREP own funds requirements	**7.6**	7.3	8.0	7.8	7.6
	Leverage ratio					
13	Total exposure measure excluding claims on central banks (£m)	**275,419**	270,907	266,036	264,561	261,676
14	Leverage ratio excluding claims on central banks (%)	**6.1**	6.1	6.4	6.3	6.3
	Average exposure measure excluding claims on central banks (£m)	**271,478**	267,547	265,422	260,415	250,848
	Additional leverage ratio disclosure requirements					
14a	Fully loaded expected credit losses ('ECL') accounting model leverage ratio excluding claims on central banks (%)	**6.1**	6.1	6.4	6.3	6.3
14b	Leverage ratio including claims on central banks (%)	**4.9**	4.8	5.0	4.8	4.7
14c	Average leverage ratio excluding claims on central banks (%)	**6.2**	6.4	6.4	6.5	6.2
14d	Average leverage ratio including claims on central banks (%)	**5.0**	5.1	5.0	4.9	4.5
14e	Countercyclical leverage ratio buffer (%)	**0.6**	0.6	0.7	0.3	0.3
EU-14d	Leverage ratio buffer requirement (%)	**1.0**	1.0	1.1	0.7	0.7
EU-14e	Overall leverage ratio requirements (%)	**4.3**	4.3	4.4	3.9	3.9
	Liquidity coverage ratio ('LCR')					
15	Total high-quality liquid assets (£m)	**92,036**	94,765	98,181	102,757	107,018
UK-16a	Cash outflows – total weighted value (£m)	**52,860**	53,058	53,363	53,629	53,632
UK-16b	Cash inflows – total weighted value (£m)	**5,807**	5,823	5,702	5,393	5,009
16	Total net cash outflow (£m)	**47,053**	47,234	47,661	48,236	48,623
17	LCR ratio (%)	**196**	201	206	213	220
	Net stable funding ratio ('NSFR')					
18	Total available stable funding (£m)	**262,779**	264,729	266,701	269,524	272,487
19	Total required stable funding (£m)	**168,217**	167,523	166,740	166,895	166,886
20	NSFR ratio (%)	**156**	158	160	162	163

At 31 March 2024, our CET1 capital ratio increased to 14.3% from 14.0% at 31 December 2023.

The key drivers for the movement in the CET1 capital ratio were:

- an increase of 0.5 percentage point from £0.5bn of capital generation mainly through profits net of dividends.
- a decrease of 0.2 percentage point from the £0.7bn increase in RWAs and £0.1bn in excess expected loss deduction.

Our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 3.92% of RWAs, of which 2.2% was met by CET1 capital. Throughout 1Q24, we complied with the PRA's regulatory capital adequacy requirements.

Our leverage ratio was 6.1% consistent with the ratio as of 31 December 2023. The increase of £0.4bn in tier 1 capital was offset by increase of £4.5bn in the leverage exposure.

Average Leverage ratio was 6.2% at 31 March 2024, which is 0.2 percentage point lower than 6.4% at 31 December 2023. This was due to decrease of £0.3bn in average tier 1 capital and an increase of £4bn in average leverage exposure, primarily due to balance sheet growth.

Risk-weighted assets

Table 2 below shows total RWAs and the corresponding total own funds requirement split by risk type, and represents the minimum capital charge set at 8% of RWAs by Article 92(1) of CRR II. Other counterparty credit risk includes RWAs on securities financing transactions.

Table 2: Overview of RWAs (OV1)

		At			
		31 Mar 2024	31 Dec 2023	**31 Mar 2024**	31 Dec 2023
		RWAs	RWAs	**Total own funds requirement**	Total own funds requirement
		£m	£m	**£m**	£m
1	**Credit risk (excluding counterparty credit risk)**	**87,238**	86,778	**6,979**	6,942
2	– standardised approach	**10,639**	10,918	**851**	873
3	– foundation internal ratings-based ('FIRB') approach	**40,685**	40,034	**3,255**	3,203
4	– slotting approach	**5,114**	5,146	**409**	412
5	– advanced IRB ('AIRB') approach	**30,800**	30,680	**2,464**	2,454
6	**Counterparty credit risk ('CCR')**	**177**	236	**14**	19
7	– standardised approach	**68**	94	**5**	8
UK-8a	– risk exposure amount for contributions to the default fund of a central counterparty	**73**	105	**6**	8
UK-8b	– credit valuation adjustment	**16**	21	**1**	2
9	– other counterparty credit risk	**20**	16	**2**	1
16	**Securitisation exposures in the non-trading book**	**1,082**	725	**87**	58
17	– internal ratings-based approach ('SEC-IRBA')	**925**	588	**74**	47
18	– external ratings-based approach ('SEC-ERBA') (including internal assessment approach ('IAA'))	**8**	4	**1**	—
19	– standardised approach ('SEC-SA')	**149**	133	**12**	11
20	**Position, foreign exchange and commodities risks (market risk)**	**114**	132	**9**	11
21	– standardised approach	**114**	132	**9**	11
23	**Operational risk**	**13,607**	13,607	**1,089**	1,089
UK-23b	– standardised approach	**13,607**	13,607	**1,089**	1,089
29	**Total**	**102,218**	101,478	**8,178**	8,119
24	– *of which: amounts below the thresholds for deduction (subject to 250% risk-weight)*[1]	***613***	*652*	***49***	*52*

1 *These balances are included in row 2 of the table and include thresholds for the recognition of significant investments and deferred tax assets.*

Credit risk, including amounts below the thresholds for deduction

Credit risk RWAs increased by £0.5bn during the quarter.

Standardised RWAs decreased by £0.3bn mainly due to a reduction in HINV commercial lending portfolio.

Foundation approach RWAs increased by £0.7bn mainly due to growth in corporate lending combined with risk parameter refinements and data quality improvements.

Advanced IRB RWAs increased by £0.1bn due to increase in mortgage lending.

Securitisation

RWAs increased by £0.4bn mainly due to risk parameter refinements.

Table 3 below presents the drivers of the quarterly movements of credit risk RWAs (excluding counterparty credit risk) under the IRB approach. Securitisation positions and Non-credit obligation assets ('NCOAs') are not included in this table.

Table 3: RWA flow statements of credit risk exposures under IRB approach (CR8)

		Quarter ended			
		31 Mar 2024	31 Dec 2023	30 Sep 2023	30 Jun 2023
Ref		**£m**	£m	£m	£m
1	**RWAs at opening of period**	**74,900**	76,465	74,917	75,087
2	Asset size	**589**	(69)	240	1,494
3	Asset quality	**(137)**	29	1,330	16
4	Model updates	**—**	(94)	(102)	(616)
5	Methodology and policy	**261**	(1,209)	(162)	(867)
7	Foreign exchange movements	**9**	(222)	242	(197)
9	**RWAs at end of period**	**75,622**	74,900	76,465	74,917

RWAs under the IRB approach increased by £0.7bn during the quarter.

Asset size movements increased RWAs by £0.6bn mainly due to increase in corporate and mortgage lending.

Asset quality changes led to a £0.1bn decrease in RWAs due to changes in the underlying portfolio mix.

Changes in **methodology and policy** caused £0.3bn increase in RWAs due to risk parameter refinements and data quality improvements.

Liquidity

Management of liquidity and funding risk

We aim to ensure that management has oversight of our liquidity and funding risks at HSBC UK level by maintaining comprehensive policies, metrics and controls.

Liquidity coverage ratio

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar day liquidity stress scenario. For the calculation of the LCR, we follow Article 451a of CRR II.

HSBC UK's liquid asset buffer mainly comprised of central bank reserves and Level 1 securities. At 31 March 2024, HSBC UK's LCR was above regulatory minimum. Average LCR as at 31 March 2024 was 196% as compared to 201% as at 31 December 2023, the decrease of 5% is mainly due to decrease in deposits by £3bn and growth in mortgage lending by £1bn.

Net stable funding ratio

We use the net stable funding ratio ('NSFR'), alongside other appropriate metrics, as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR is defined as the ratio between the amount of available stable funding and the amount of required funding. From 1 January 2022, we started managing funding risk based on the PRA's NSFR rules.

At 31 March 2024, HSBC UK's NSFR was above regulatory minimum. Average NSFR as at 31 March 2024 was 156% as compared to 158% as at 31 December 2023.

Currency mismatch in the LCR

Our internal liquidity and funding risk management framework requires all operating entities to monitor the LCR for material currencies. This continuous monitoring helps with overall management of currency exposures, in line with our internal framework.

Sources of funding

Our primary sources of funding are customer current accounts and savings deposits payable on demand or at short notice. We issue secured and unsecured wholesale securities to supplement customer deposits, meet regulatory obligations and to change the currency mix, maturity profile or location of our liabilities.

The following table presents liquidity coverage information on a HSBC UK Bank Domestic Liquidity Sub-group basis reflecting the way we manage liquidity within HSBC UK.

The HSBC UK Bank Domestic Liquidity Sub-group comprises: HSBC UK Bank plc, Marks and Spencer Financial Services plc, HSBC Trust Company (UK) Limited, HSBC Private Bank (UK) Limited and HSBC Innovation Bank Limited (HSBC Innovation Bank Limited is included from 31 March 2023 reporting).

More details on the concentration of funding and liquidity sources may be found on page 58 of our Annual Report and Accounts 2023.

Table 4 below sets out the granular split of cash outflows and cash inflows, as well as the available high-quality liquid assets on both an unweighted and weighted basis, that are used to derive the liquidity coverage ratio. The table discloses the liquidity coverage ratio, high-quality liquid assets and net outflows based on end-of-the-month observations over the preceding 12 months for each quarter.

Table 4: UK LIQ1 - Quantitative information of LCR

		Quarter ended							
		31 Mar 2024		31 Dec 2023		30 Sep 2023		30 Jun 2023	
		Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
		£m	**£m**	£m	£m	£m	£m	£m	£m
	Number of data points used in the calculation of averages		**12**		12		12		12
High-quality liquid assets									
1	Total high-quality liquid assets ('HQLA')		**92,036**		94,765		98,181		102,757
Cash outflows									
2	Retail deposits and small business funding	**193,033**	**15,858**	195,364	16,039	198,657	16,355	202,307	16,675
3	– *of which:* *stable deposits*	***122,718***	***6,136***	*123,853*	*6,193*	*125,071*	*6,253*	*126,378*	*6,319*
4	*less stable deposits*	***70,315***	***9,722***	*71,511*	*9,846*	*73,586*	*10,102*	*75,929*	*10,356*
5	Unsecured wholesale funding	**72,326**	**28,382**	73,345	28,719	74,220	28,887	74,905	29,005
6	– operational deposits (all counterparties) and deposits in networks of cooperative banks	**22,150**	**5,188**	22,248	5,203	22,593	5,282	22,667	5,302
7	– non-operational deposits (all counterparties)	**50,020**	**23,038**	50,932	23,351	51,476	23,454	52,087	23,552
8	– unsecured debt	**156**	**156**	165	165	151	151	151	151
10	Additional requirements	**30,468**	**4,499**	25,333	3,980	24,845	3,678	23,860	3,373
11	– outflows related to derivative exposures and other collateral requirements	**723**	**721**	733	731	729	728	691	690
13	– credit and liquidity facilities	**29,745**	**3,778**	24,600	3,249	24,116	2,950	23,169	2,683
14	Other contractual funding obligations	**884**	**633**	737	501	701	475	745	522
15	Other contingent funding obligations	**51,368**	**3,488**	55,564	3,818	54,709	3,968	54,472	4,054
16	**Total cash outflows**		**52,860**		53,057		53,363		53,629
Cash inflows									
17	Secured lending transactions (including reverse repos)	**3,536**	**74**	3,581	65	3,702	71	4,459	56
18	Inflows from fully performing exposures	**4,313**	**3,583**	4,257	3,544	4,036	3,334	3,683	2,987
19	Other cash inflows	**9,961**	**2,150**	10,281	2,214	10,655	2,297	10,845	2,350
20	**Total cash inflows**	**17,810**	**5,807**	18,119	5,823	18,393	5,702	18,987	5,393
UK-20c	Inflows subject to 75% cap	**17,810**	**5,807**	18,119	5,823	18,393	5,702	18,987	5,393
Liquidity coverage ratio (adjusted value)									
UK-21	Liquidity buffer		**92,036**		94,765		98,181		102,757
22	Total net cash outflows		**47,053**		47,234		47,661		48,236
23	Liquidity coverage ratio (%)		**195.6**		200.6		206.0		213.0

Abbreviations

AT1 capital	Additional tier 1 capital
Basel	Basel Committee on Banking Supervision
Basel III[1]	Basel Committee's reforms to strengthen global capital and liquidity rules
CCR[1]	Counterparty credit risk
CET1[1]	Common equity tier 1
CRR II[1]	The regulatory requirements of the PRA Rulebook, Capital Requirements Regulation and Directive, and the CRR II regulation (EU 2019/876)
EAD[1]	Exposure at default
ECL[1]	Expected credit losses. In the income statement, ECL is recorded as a change in expected credit losses and other credit impairment charges. In the balance sheet, ECL is recorded as an allowance for financial instruments to which only the impairment requirements in IFRS 9 are applied
EU	European Union
FIRB[1]	Foundation internal-ratings based approach
HINV	HSBC Innovation Bank Limited
HQLA	High-quality liquid assets
IAA	Internal assessment approach
IFRS[1]	International Financial Reporting Standards
IRB[1]	Internal ratings-based approach
LCR[1]	Liquidity coverage ratio
NCOA	Non-credit obligation asset
NSFR[1]	Net stable funding ratio
PRA[1]	Prudential Regulation Authority (UK)
RWA[1]	Risk-weighted asset
SEC-ERBA	Securitisation external rating-based approach
SEC-IRBA	Securitisation internal rating-based approach
SEC-SA	Securitisation standardised approach
SREP	Supervisory review and evaluation process
T1 capital[1]	Tier 1 capital
T2 capital[1]	Tier 2 capital
TSCR	Total SREP own funds requirement
UK	United Kingdom

1 *Full definition included in the Glossary published on HSBC website www.hsbc.com/investors/results-and-announcements.*

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