

HSBC UK Bank plc

Pillar 3 Disclosures at 30 September 2022

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This document comprises the 30 September 2022 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. References to '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 GB pounds respectively.

This document may contain certain forward-looking statements with respect to the financial condition, result of operations and business of the group.

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.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Introduction

Regulatory framework for disclosures

We are supervised on a consolidated basis in the 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 on Banking Supervision ('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, including any subsequent amendments.

The Basel Committee's framework is structured around three 'pillars': Pillar 1, minimum capital requirements; Pillar 2, supervisory review process; and Pillar 3, market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess a bank's scope of application of the Basel Committee's framework. It also aims to assess their application of the rules in their jurisdiction, capital condition, risk exposures and risk management processes, and hence their capital adequacy.

All European legislation that was in place on 31 December 2020 was onshored into UK law, subject to certain amendments.

Pillar 3 disclosures

Our *Pillar 3 Disclosures at 30 September 2022* comprises both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with part Eight of the Capital Requirements Regulation and Directive, as implemented ('CRR II') and the PRA Rulebook and use the PRA's disclosure templates and instructions which came into force on 1 January 2022. They are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part.

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 of the Capital Requirements Regulation.

Table name references and row numbering in tables identify those prescribed in the relevant PRA guidelines where applicable and where there is a value.

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 by the PRA or Basel are not applicable or immaterial to our activities, we omit them and follow the same approach for comparative disclosures.

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

Key metrics

Key metrics (KM1/IFRS9-FL)

Ref*		At				
		30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Jun 2021
	Available capital (£m)¹					
1	Common equity tier 1 ('CET1') capital [^]	12,338	12,346	12,244	12,813	13,219
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	12,301	12,313	12,230	12,797	12,591
2	Tier 1 capital [^]	14,586	14,599	14,490	15,067	15,467
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	14,549	14,566	14,477	15,051	14,839
3	Total capital [^]	17,721	17,668	17,509	18,067	18,454
	Total capital as if IFRS 9 transitional arrangements had not been applied	17,684	17,635	17,495	18,051	18,243
	Risk-weighted asset ('RWAs') (£m)					
4	Total RWAs [^]	91,917	90,209	89,803	83,723	84,555
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	91,887	90,183	89,793	83,710	84,543
	Capital ratios (%)					
5	CET1 [^]	13.4	13.7	13.6	15.3	15.6
	CET1 as if IFRS 9 transitional arrangements had not been applied	13.4	13.7	13.6	15.3	14.9
6	Tier 1 [^]	15.9	16.2	16.1	18.0	18.3
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	15.9	16.2	16.1	18.0	17.6
7	Total capital [^]	19.3	19.6	19.5	21.6	21.8
	Total capital as if IFRS 9 transitional arrangements had not been applied	19.3	19.6	19.5	21.6	21.6
	Additional own funds requirements based on supervisory review and evaluation process ('SREP') as a percentage of RWAs (%)²					
UK-7a	Additional CET1 SREP requirements	2.4	2.4	2.4	N/A	N/A
UK-7b	Additional AT1 SREP requirements	0.8	0.8	0.8	N/A	N/A
UK-7c	Additional T2 SREP requirements	1.0	1.0	1.1	N/A	N/A
UK-7d	Total SREP own funds requirements (TSCR ratio)	12.2	12.2	12.3	N/A	N/A
	Combined buffer requirement as a percentage of RWAs (%)					
8	Capital conservation buffer requirement	2.5	2.5	2.5	2.5	2.5
UK 10a	Other systemically important institution buffer	1.0	1.0	1.0	1.0	1.0
11	Combined buffer requirement	3.5	3.5	3.5	3.5	3.5
UK-11a	Overall capital requirements ²	15.7	15.7	15.8	16.1	16.1
12	CET1 available after meeting the total SREP own funds requirements	6.5	6.8	6.8	8.2	8.5
	Leverage ratio^{^,2,3}					
13	Total exposure measure excluding claims on central banks (£m)	261,410	253,401	249,331	N/A	N/A
14	Leverage ratio excluding claims on central banks (%)	5.6	5.8	5.8	N/A	N/A
	Average exposure measure excluding claims on central banks (£m)	255,862	248,946	243,720	N/A	N/A
	Additional leverage ratio disclosure requirements^{2,3}					
14a	Fully loaded expected credit losses ('ECL') accounting model leverage ratio excluding claims on central banks (%)	5.6	5.8	5.8	N/A	N/A
14b	Leverage ratio including claims on central banks (%) [^]	4.1	4.1	4.1	N/A	N/A
14c	Average leverage ratio excluding claims on central banks (%) [^]	5.7	5.8	6.0	N/A	N/A
14d	Average leverage ratio including claims on central banks (%) [^]	4.2	4.2	4.2	N/A	N/A
EU-14d	Leverage ratio buffer requirement (%)	0.4	0.4	—	N/A	N/A
EU-14e	Overall leverage ratio requirements (%)	3.6	3.6	3.3	N/A	N/A
	Leverage ratio (under Capital Requirements Regulation)^{^,3}					
	Total leverage ratio exposure measure (£m)	N/A	N/A	N/A	358,237	334,770
	Leverage ratio (%)	N/A	N/A	N/A	4.2	4.6
	Liquidity coverage ratio ('LCR')⁴					
15	Total high-quality liquid assets (£m)	114,008	112,761	110,060	N/A	N/A
UK-16a	Cash outflows – total weighted value (£m)	53,710	53,058	52,179	N/A	N/A
UK-16b	Cash inflows – total weighted value (£m)	4,638	4,527	4,377	N/A	N/A
16	Total net cash outflow (£m)	49,072	48,531	47,802	N/A	N/A
17	LCR ratio (%)	232	232	230	N/A	N/A
	Net stable funding ratio ('NSFR')^{2,4}					
18	Total available stable funding (£m)	274,870	274,912	274,320	N/A	N/A
19	Total required stable funding (£m)	166,921	165,936	164,546	N/A	N/A
20	NSFR ratio (%)	165	166	167	N/A	N/A

* The references in this and subsequent tables identify lines prescribed in the relevant PRA template where applicable and where there is a value.

[^] Figures have been prepared on an IFRS 9 transitional basis.

1 Capital figures and ratios are reported on a CRR II transitional basis for capital instruments.

2 These disclosures have been implemented from 1 January 2022, and are based on the PRA's disclosure templates and instructions which came into force at that time. N/A in prior periods indicates that the disclosure is new or changed and no comparatives are being provided.

3 Leverage ratio is calculated using the CRR II end point basis for capital. The 2021 comparative leverage exposures and ratios are separately reported based on the Capital Requirements Regulation rules in force at that time and include claims on central banks.

4 Prior period comparatives have been updated to reflect the average measures as amended by CRR II.

Common equity tier 1 ('CET1') ratio decreased to 13.4% from 13.7% at June 2022. This resulted from an increase in RWAs of £1.7bn. CET1 reduced slightly in the period as the foreseeable dividend exceeded profits.

At 30 September 2022, our Leverage ratio decreased to 5.6% from 5.8%, mainly resulting from an increase in on-balance sheet lending and securities financing transactions.

Risk-weighted assets

Overview of RWAs (OV1)¹

	At			
	30 Sep 2022	30 Jun 2022	30 Sep 2022	30 Jun 2022
	RWAs £m	RWAs £m	Total own funds requirement ² £m	Total own funds requirement ² £m
1 Credit risk (excluding counterparty credit risk)	80,255	78,596	6,420	6,288
2 – standardised approach	3,583	3,203	287	256
3 – foundation internal ratings-based ('FIRB') approach	41,512	40,509	3,321	3,241
4 – slotting approach	5,465	5,372	437	430
5 – advanced IRB ('AIRB') approach	29,695	29,512	2,376	2,361
6 Counterparty credit risk ('CCR')	246	210	20	16
7 – standardised approach	158	118	13	9
UK-8a – risk exposure amount for contributions to the default fund of a central counterparty	11	17	1	1
UK-8b – credit valuation adjustment	30	34	2	3
9 – other counterparty credit risk ³	47	41	4	3
16 Securitisation exposures in the non-trading book	654	718	52	57
17 – internal ratings-based approach ('SEC-IRBA')	379	458	30	37
19 – standardised approach ('SEC-SA')	133	118	11	9
UK-19a – 1250% deduction	142	142	11	11
20 Position, foreign exchange and commodities risks (market risk)	155	78	12	6
21 – standardised approach	155	78	12	6
23 Operational risk	10,607	10,607	849	849
UK-23b – standardised approach	10,607	10,607	849	849
29 Total	91,917	90,209	7,353	7,216
24 Amounts below the thresholds for deduction (subject to 250% risk-weight)⁴	731	733	58	59

1 All figures have been prepared on an IFRS9 transitional basis.

2 'Capital requirement' in this table represents the minimum capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.

3 Other counterparty credit risk includes RWAs on securities financing transactions and free deliveries.

4 Balances are included in rows 1 and 2 of the table.

RWA flow statements of credit risk exposures under IRB approach (CR8)^{1,2}

Ref	Quarter ended		
	30 Sep 2022	30 Jun 2022	31 Mar 2022
	£m	£m	£m
1 RWAs at opening of period	74,504	74,836	68,143
2 Asset size	2,135	875	1,772
3 Asset quality	81	(640)	(1,708)
5 Methodology and policy	(1,048)	(567)	6,629
9 RWAs at end of period	75,672	74,504	74,836

1 Securitisation positions and Non Credit Obligation Assets are not included in this table.

2 All figures have been prepared on an IFRS9 transitional basis.

RWA Commentary

Asset Size

Corporate loan growth increased RWAs by £1.7bn and retail lending increased RWAs by £0.4bn.

Asset Quality

Changes in asset quality led to a small increase in RWAs in our retail and private banking portfolios, partly offset by a reduction in corporate RWAs.

Methodology and Policy

RWAs decreased by £(1.0)bn mainly as a result of risk parameter refinements and data quality improvements.

Liquidity

Management of liquidity and funding risk

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. PRA rules are used for the calculation of LCR, the approach is informed by the European Banking Authority's guidelines for common procedures and methodologies for the supervisory review and evaluation process.

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. These metrics require institutions to maintain a minimum amount of stable funding based on assumptions of asset liquidity. From 1 January 2022, we started managing funding risk based on the PRA's NSFR rules.

Currency mismatch in the LCR

Our internal liquidity and funding risk management framework requires us to monitor the LCR for material currencies. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the foreign exchange swap markets.

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 and funding risk 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 and HSBC Private Bank (UK) Limited.

Level and components of HSBC Group consolidated liquidity coverage ratio (LCR)¹

UK-1a	Quarter ended							
	30 Sep 2022		30 Jun 2022		31 Mar 2022		31 Dec 2021	
	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
UK-1b 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')	114,008		112,761		110,060		103,943	
Cash outflows								
2 Retail deposits and small business funding	204,995	16,462	203,160	16,170	200,924	15,849	197,641	15,442
– of which:								
3 stable deposits	129,049	6,452	129,067	6,453	129,042	6,452	128,541	6,427
4 less stable deposits	75,946	10,010	74,093	9,717	71,882	9,397	69,100	9,015
5 Unsecured wholesale funding	75,390	29,263	74,295	28,899	72,612	28,403	70,590	27,765
6 – operational deposits (all counterparties) and deposits in networks of cooperative banks	21,673	5,088	21,280	5,005	20,650	4,867	19,927	4,701
7 – non-operational deposits (all counterparties)	53,559	24,017	52,870	23,749	51,812	23,386	50,526	22,927
8 – unsecured debt	158	158	145	145	150	150	137	137
10 Additional requirements	22,281	2,992	22,720	2,960	23,043	2,912	22,890	2,877
11 – outflows related to derivative exposures and other collateral requirements	528	519	487	470	440	421	431	414
13 – credit and liquidity facilities	21,753	2,473	22,233	2,490	22,603	2,491	22,459	2,463
14 Other contractual funding obligations	647	407	624	370	675	398	720	427
15 Other contingent funding obligations	56,708	4,586	56,883	4,659	57,018	4,617	57,363	4,542
16 Total cash outflows	53,710		53,058		52,179		51,053	
Cash inflows								
17 Secured lending transactions (including reverse repos)	2,079	33	728	4	655	4	680	4
18 Inflows from fully performing exposures	3,176	2,458	3,224	2,478	3,177	2,439	3,007	2,307
19 Other cash inflows	10,250	2,147	9,847	2,045	9,375	1,934	9,358	1,936
20 Total cash inflows	15,505		13,799		13,207		13,045	
UK-20c Inflows subject to 75% cap	15,505	4,638	13,799	4,527	13,207	4,377	13,045	4,247
Liquidity coverage ratio (adjusted value)								
UK-21 Liquidity buffer	114,008		112,761		110,060		103,943	
22 Total net cash outflows	49,072		48,531		47,802		46,806	
23 Liquidity coverage ratio (%)	232.3		232.3		230.2		222.1	

¹ The LCR during 2022 is reported as specified in the PRA Rulebook effective since 1 January 2022. The comparative December 2021 LCR figure reported above was prepared as specified by the Commission Delegated Regulation (EU) 2015/61. The differences in the LCR basis of preparation reflect the UK's withdrawal from the EU and do not materially impact the above metrics.

Abbreviations

A

AIRB ¹	Advanced internal ratings-based approach
AT1 capital	Additional tier 1 capital

B

Basel	Basel Committee on Banking Supervision
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C

CCR ¹	Counterparty credit risk
CET1 ¹	Common equity tier 1
CRR II	Revised Capital Requirements Regulation, as implemented

E

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

F

FIRB ¹	Foundation internal-ratings based approach
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H

HQLA	High-quality liquid assets
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I

IFRSs	International Financial Reporting Standards
IMA ¹	Internal models approach
IMM ¹	Internal model method
IRB ¹	Internal ratings-based approach

L

LCR ¹	Liquidity coverage ratio
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N

NSFR ¹	Net stable funding ratio
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P

PRA ¹	Prudential Regulation Authority (UK)
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R

RWA ¹	Risk-weighted asset
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S

SEC-ERBA	Securitisation internal rating-based approach
SEC-IRBA	Securitisation external rating-based approach
SEC-SA	Securitisation standardised approach
SREP	Supervisory review and evaluation process

U

UK	United Kingdom
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¹ Full definition included in the Glossary published on HSBC website www.hsbc.com

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