HSBC UK Bank plc

Pillar 3 Disclosures at 31 March 2023

HSBC

Contents

Presentation of information

This document comprises the 31 March 2023 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 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, and as may be subsequently amended under UK law.

The Basel III framework is structured around three 'pillars', with the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process complemented by Pillar 3 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.

Pillar 3 disclosures

Our *Pillar 3 Disclosures at 31 March 2023* 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. 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(1) of CRR II.

The 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.

The information presented in this Pillar 3 report is unaudited.

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 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 HSBC Group website www.hsbc.com

Acquisition of Silicon Valley Bank UK Ltd

On 13 March 2023 HSBC UK Bank plc acquired Silicon Valley Bank UK Ltd (SVB UK) for a purchase price of £1. On acquisition, we performed a preliminary assessment of the fair value of the assets and liabilities purchased, and have recognised a £1.2bn provisional gain on acquisition representing the difference between the consideration paid and the fair value of the net assets acquired. This gain could change as ongoing due diligence is performed.

After initial deposit outflows triggered prior to acquisition, SVB UK deposits have now stabilised. At 31 March 2023, the funding provided to SVB UK by HSBC UK was £2.3bn. The consolidation of SVB had a negative 6% impact on HSBC UK Liquidity Coverage Ratio, which was 210% as at 31 March 2023.

SVB UK contribution to HSBC UK

	At 31 Mar 2023 £m
Gain on acquisition	**1,243**
Total Risk weighted assets	**8,037**
of which: Credit Risk (standardised approach)	***7,385***
Leverage exposure measure	**10,665**

Key metrics

Key metrics (KM1/IFRS9-FL)

		At				
Ref*		**31 Mar 2023**	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	Available capital (£m)[1]					
1	Common equity tier 1 ('CET1') capital^	**14,317**	12,519	12,338	12,346	12,244
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**14,317**	12,484	12,301	12,313	12,230
2	Tier 1 capital^	**16,567**	14,771	14,586	14,599	14,490
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**16,567**	14,736	14,549	14,566	14,477
3	Total capital^	**19,625**	17,847	17,721	17,668	17,509
	Total capital as if IFRS 9 transitional arrangements had not been applied	**19,625**	17,812	17,684	17,635	17,495
	Risk-weighted asset ('RWAs') (£m)					
4	Total RWAs^	**99,930**	92,413	91,917	90,209	89,803
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**99,930**	92,384	91,887	90,183	89,793
	Capital ratios (%)[1]					
5	CET1^	**14.3**	13.5	13.4	13.7	13.6
	CET1 as if IFRS 9 transitional arrangements had not been applied	**14.3**	13.5	13.4	13.7	13.6
6	Tier 1^	**16.6**	16.0	15.9	16.2	16.1
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**16.6**	16.0	15.9	16.2	16.1
7	Total capital^	**19.6**	19.3	19.3	19.6	19.5
	Total capital as if IFRS 9 transitional arrangements had not been applied	**19.6**	19.3	19.3	19.6	19.5
	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	2.4	2.4	2.4
UK-7b	Additional AT1 SREP requirements	**0.8**	0.8	0.8	0.8	0.8
UK-7c	Additional T2 SREP requirements	**1.0**	1.0	1.0	1.0	1.1
UK-7d	Total SREP own funds requirements (TSCR ratio)	**12.0**	12.0	12.2	12.2	12.3
	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	**0.9**	1.0	0.0	0.0	0.0
UK 10a	Other systemically important institution buffer	**1.0**	1.0	1.0	1.0	1.0
11	Combined buffer requirement	**4.4**	4.5	3.5	3.5	3.5
UK-11a	Overall capital requirements	**16.4**	16.5	15.7	15.7	15.8
12	CET1 available after meeting the total SREP own funds requirements	**7.6**	6.8	6.5	6.8	6.8
	Leverage ratio^,2					
13	Total exposure measure excluding claims on central banks (£m)	**261,676**	251,500	261,410	253,401	249,331
14	Leverage ratio excluding claims on central banks (%)	**6.3**	5.9	5.6	5.8	5.8
	Average exposure measure excluding claims on central banks (£m)	**250,848**	252,024	255,863	248,946	243,720
	Additional leverage ratio disclosure requirements[2]					
14a	Fully loaded expected credit losses ('ECL') accounting model leverage ratio excluding claims on central banks (%)	**6.3**	5.9	5.6	5.8	5.8
14b	Leverage ratio including claims on central banks (%)^	**4.7**	4.2	4.1	4.1	4.1
14c	Average leverage ratio excluding claims on central banks (%)^	**6.2**	5.9	5.7	5.8	6.0
14d	Average leverage ratio including claims on central banks (%)^	**4.5**	4.2	4.2	4.2	4.2
14e	Countercyclical leverage ratio buffer (%)	**0.3**	0.3	—	—	—
EU-14d	Leverage ratio buffer requirement (%)	**0.7**	0.7	0.4	0.4	0.4
EU-14e	Overall leverage ratio requirements (%)	**3.9**	3.9	3.6	3.6	3.3
	Liquidity coverage ratio ('LCR')[3]					
15	Total high-quality liquid assets (£m)	**107,018**	110,722	114,008	112,761	110,060
UK-16a	Cash outflows – total weighted value (£m)	**53,632**	53,740	53,710	53,058	52,179
UK-16b	Cash inflows – total weighted value (£m)	**5,009**	4,793	4,638	4,527	4,377
16	Total net cash outflow (£m)	**48,623**	48,946	49,072	48,531	47,802
17	LCR ratio (%)	**220**	226	232	232	230
	Net stable funding ratio ('NSFR')[3]					
18	Total available stable funding (£m)	**272,487**	273,802	274,870	274,912	274,320
19	Total required stable funding (£m)	**166,886**	166,551	166,921	165,936	164,546
20	NSFR ratio (%)	**163**	164	165	166	167

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

^ *We have adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a. These allow banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances. Our capital and ratios are presented under these arrangements. At 31 March 2023, the add-back to CET1 capital and the related tax charge were immaterial.*

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

2 *Leverage ratio is calculated using the CRR II end point basis for capital.*

3 *From 30 September 2022, the LCR and NSFR ratios presented in this table are based on average value. The LCR is the average of the preceding 12 months for each quarter. The NSFR is the average of preceding four quarters. Prior period numbers have been restated for consistency.*

Common equity tier 1 ('CET1') ratio increased to 14.3% from 13.5% at Dec 2022, reflecting an increase in capital of £1.8bn, partly offset by an increase in RWAs of £8bn. The key drivers of the overall rise in our CET1 ratio were:

- a 0.7 percentage increase from the £0.7bn of capital generation through profits (excluding SVB UK gain) less dividends.
- a 0.08 percentage increase from the provisional gain of £1.2bn on acquisition of SVB UK offset by increase of £8bn in RWAs.

Leverage ratio increased to 6.3% from 5.9%, resulting from an increase in capital of £1.8bn, partly offset by an increase in exposure of £10.2bn. Key drivers for an overall increase in 0.4% of Leverage ratio were:

- a 0.2 percentage increase from the £1.2bn increase in capital partly offset by an increase in exposure of £10.6bn due to acquisition of SVB UK.
- a 0.2 percentage increase from the £0.7bn of capital generation through profits (excluding SVB UK gain) less dividends.

Average Leverage ratio is 6.2%, which is 0.1% lower than the quarter-end leverage ratio, due to lower average capital of (£1)bn partly offset by lower average exposure of (£10.8)bn compared to quarter-end numbers. These factors were primarily driven by the acquisition of SVB UK, which was only taken into account in the latter part of the quarter when calculating averages.

Risk-weighted assets

Overview of RWAs (OV1)

		At			
		31 Mar 2023	31 Dec 2022	**31 Mar 2023**	31 Dec 2022
		RWAs	RWAs	**Total own funds requirement[1]**	Total own funds requirement[1]
		£m	£m	**£m**	£m
1	**Credit risk (excluding counterparty credit risk)**	**86,950**	80,090	**6,956**	6,407
2	– standardised approach	**10,931**	3,990	**874**	319
3	– foundation internal ratings-based ('FIRB') approach	**41,043**	41,270	**3,283**	3,301
4	– slotting approach	**5,391**	5,469	**431**	438
5	– advanced IRB ('AIRB') approach	**29,585**	29,361	**2,367**	2,349
6	**Counterparty credit risk ('CCR')**	**494**	204	**40**	16
7	– standardised approach	**306**	132	**24**	11
UK-8a	– exposures to a central counterparty[2]	**72**	11	**6**	1
UK-8b	– credit valuation adjustment	**103**	18	**8**	1
9	– other counterparty credit risk[3]	**13**	43	**1**	3
16	**Securitisation exposures in the non-trading book**	**592**	650	**47**	51
17	– internal ratings-based approach ('SEC-IRBA')	**308**	367	**25**	29
18	– external ratings-based approach ('SEC-ERBA') (including internal assessment approach ('IAA'))	**2**	—	**—**	—
19	– standardised approach ('SEC-SA')	**126**	141	**10**	11
UK-19a	– 1250% deduction	**156**	142	**12**	11
20	**Position, foreign exchange and commodities risks (market risk)**	**233**	101	**19**	8
21	– standardised approach	**233**	101	**19**	8
23	**Operational risk**	**11,661**	11,368	**933**	909
UK-23b	– standardised approach	**11,661**	11,368	**933**	909
29	**Total**	**99,930**	92,413	**7,995**	7,391
24	***– of which: amounts below the thresholds for deduction (subject to 250% risk-weight)[4]***	***860***	*724*	***69***	*58*

1 'Capital requirement' in this table represents the minimum capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.
2 From 1 January 2023, RWAs related to central counterparties have been reclassified to row 8a, having previously been classified in other counterparty credit risk categories.
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.

RWAs increased by £7.5bn primarily due to the acquisition of SVB UK in Standardised approach comprising of Credit Risk £7.4bn, Counterparty Credit Risk £0.2bn, Market Risk £0.1bn and Operational Risk of £0.3bn.

RWA flow statements of credit risk exposures under IRB approach (CR8)[1]

Ref		Quarter ended 31 Mar 2023 £m	31 Dec 2022 £m
1	**RWAs at opening of period**	**75,151**	75,672
2	Asset size	**(34)**	(312)
3	Asset quality	**442**	(441)
4	Model updates	**—**	—
5	Methodology and policy	**(316)**	232
6	Acquisitions and disposals	**—**	—
7	Foreign exchange movements[2]	**(156)**	—
9	**RWAs at end of period**	**75,087**	75,151

1 *Securitisation positions and Non Credit Obligation Assets are not included in this table.*
2 *Starting 1st Jan 2023, Foreign exchange movements in this disclosure are computed by retranslating the RWAs into GBP based on the underlying transactional currencies.*

RWAs under the IRB approach decreased by (£0.1)bn during the quarter, including a decrease of (£0.2)bn due to foreign currency translation differences.

Asset quality changes led to a £0.4bn increase in RWAs due to changes in the underlying portfolio mix and credit migrations.

Changes in methodology and policy led to a (£0.3)bn decrease in RWAs mainly due to 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 meets its liquidity needs in a 30 calendar day liquidity stress scenario.

At 31 March 2023, HSBC UK's average LCR was 6% lower than 31st Dec 2022. LCR ratio remained above regulatory minimum, retaining a strong liquidity position and reflecting stable commercial surplus.

HSBC UK's liquid asset buffer mainly comprised of Central bank reserves and Level 1 securities.

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, HSBC Private Bank (UK) Limited and Silicon Valley Bank UK Limited (SVB UK included only for 31 March 2023 reporting).

Quantitative information of LCR (LIQ1)[1]

		Quarter ended							
		31 Mar 2023		31 Dec 2022		30 Sep 2022		30 Jun 2022	
		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')		**107,018**		110,722		114,008		112,761
Cash outflows									
2	Retail deposits and small business	**204,713**	**16,800**	205,647	16,718	204,995	16,462	203,160	16,170
	– *of which:*								
3	*stable deposits*	***127,527***	***6,377***	*128,482*	*6,424*	*129,049*	*6,452*	*129,067*	*6,453*
4	*less stable deposits*	***77,186***	***10,423***	*77,165*	*10,294*	*75,946*	*10,010*	*74,093*	*9,717*
5	Unsecured wholesale funding	**75,164**	**28,975**	75,367	29,084	75,390	29,263	74,295	28,899
6	– operational deposits (all counterparties) and deposits in networks of cooperative banks	**22,532**	**5,274**	22,250	5,217	21,673	5,088	21,280	5,005
7	– non-operational deposits (all counterparties)	**52,498**	**23,567**	52,972	23,722	53,559	24,017	52,870	23,749
8	– unsecured debt	**134**	**134**	145	145	158	158	145	145
10	Additional requirements	**22,766**	**3,105**	22,405	2,998	22,281	2,992	22,720	2,960
11	– outflows related to derivative exposures and other collateral requirements	**652**	**651**	578	578	528	519	487	470
13	– credit and liquidity facilities	**22,114**	**2,454**	21,827	2,420	21,753	2,473	22,233	2,490
14	Other contractual funding obligations	**728**	**502**	698	471	647	407	624	370
15	Other contingent funding obligations	**54,543**	**4,250**	55,429	4,468	56,708	4,586	56,883	4,659
16	**Total cash outflows**		**53,632**		53,739		53,710		53,058
Cash inflows									
17	Secured lending transactions (including reverse repos)	**4,231**	**49**	3,266	49	2,079	33	728	4
18	Inflows from fully performing exposures	**3,425**	**2,687**	3,261	2,514	3,176	2,458	3,224	2,478
19	Other cash inflows	**10,803**	**2,273**	10,593	2,230	10,250	2,147	9,847	2,045
20	**Total cash inflows**	**18,459**	**5,009**	17,120	4,793	15,505	4,638	13,799	4,527
UK-20	Inflows subject to 75% cap	**18,459**	**5,009**	17,120	4,793	15,505	4,638	13,799	4,527
Liquidity coverage ratio (adjusted value)									
UK-21	Liquidity buffer		**107,018**		110,722		114,008		112,761
22	Total net cash outflows		**48,623**		48,946		49,072		48,531
23	Liquidity coverage ratio (%)		**220.1**		226.2		232.3		232.3

1 *The above table sets out the requirement to disclose the liquidity coverage ratio, liquidity assets and net outflows based on end-of-the-month observations over the preceding 12 months for each quarter. SVB is only included for the quarter ended 31 March 2023.*

Abbreviations

AIRB[1]	Advanced internal ratings-based approach
AT1 capital	Additional tier 1 capital
Basel	Basel Committee on Banking Supervision
CCR[1]	Counterparty credit risk
CET1[1]	Common equity tier 1
CRR II	Revised Capital Requirements Regulation, as implemented
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
HQLA	High-quality liquid assets
IFRSs	International Financial Reporting Standards
IMA[1]	Internal models approach
IMM[1]	Internal model method
IRB[1]	Internal ratings-based approach
LCR[1]	Liquidity coverage ratio
NSFR[1]	Net stable funding ratio
PRA[1]	Prudential Regulation Authority (UK)
RWA[1]	Risk-weighted asset
SEC-ERBA	Securitisation internal rating-based approach
SEC-IRBA	Securitisation external rating-based approach
SEC-SA	Securitisation standardised approach
SRB[1]	Systemic risk buffer
SREP	Supervisory review and evaluation process
SVB UK	Silicon Valley Bank UK Ltd
UK	United Kingdom

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

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