HSBC UK Bank plc

Pillar 3 Disclosures at 30 September 2023

HSBC

Contents

Tables

Presentation of information

This document comprises the 30 September 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 pounds sterling 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.

HSBC UK has adopted the European Union's ('EU') regulatory transitional arrangements for International Financial Reporting Standard ('IFRS') 9 Financial instruments. The application of the transitional arrangements to the disclosures is indicated in the table of contents as follows:

a. Some figures, indicated with ^, have been prepared on an IFRS 9 transitional basis. Details are provided in the table footnotes.

b. All figures within these tables have been prepared on an IFRS 9 transitional basis.

All other tables report numbers on the basis of the full adoption of IFRS 9.

Introduction

Regulatory framework for disclosures

We are supervised on a consolidated basis in the United Kingdom ('UK') by the Prudential Regulation Authority ('PRA'). Any references to 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. 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 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. 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 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 30 September 2023* comprises 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.

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 CRR II.

The regulatory numbers and ratios presented in this document were accurate as 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 may 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 HSBC Group website www.hsbc.com.

Governance

Our Pillar 3 disclosures are governed by the group's disclosure policy framework as approved by the HSBC UK Audit Committee.

This document has been approved by the HSBC UK Disclosure Committee as delegated by the HSBC UK Board.

The information presented in this Pillar 3 report is unaudited.

Silicon Valley Bank UK Limited (now HSBC Innovation Bank Limited)

On 13 March 2023, HSBC UK Bank plc acquired Silicon Valley Bank UK Limited ('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 £1.24bn provisional gain on acquisition representing the difference between the consideration paid and the fair value of the net assets acquired.

Further due diligence has been performed post acquisition resulting in the recognition of an additional gain of £0.07bn at 30 September 2023, as required by IFRS 3 'Business Combinations'. The acquisition increased RWAs by £8bn and the impact on our liquidity and Common Equity Tier 1 ('CET1') ratios is minimal.

Key metrics

The table below sets out the key regulatory metrics covering the group available capital (including buffer requirements and ratios), RWAs, leverage, liquidity coverage and net stable funding ratios. 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 LCR and NSFR ratios presented in this table are based on average values. The LCR is the average of the preceding 12 months for each quarter and the NSFR is the average of the preceding four quarters.

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

		At				
Ref*		**30 Sep 2023**	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022
	Available capital (£m)					
1	Common equity tier 1 ('CET1') capital^	**14,818**	14,382	14,317	12,519	12,338
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**14,794**	14,382	14,317	12,484	12,301
2	Tier 1 capital^	**17,072**	16,632	16,567	14,771	14,586
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**17,048**	16,632	16,567	14,736	14,549
3	Total capital^	**20,140**	19,671	19,625	17,847	17,721
	Total capital as if IFRS 9 transitional arrangements had not been applied	**20,117**	19,671	19,625	17,812	17,684
	Risk-weighted asset ('RWAs') (£m)					
4	Total RWAs^	**100,563**	99,098	99,930	92,413	91,917
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**100,542**	99,098	99,930	92,384	91,887
	Capital ratios (%)					
5	CET1^	**14.7**	14.5	14.3	13.5	13.4
	CET1 as if IFRS 9 transitional arrangements had not been applied	**14.7**	14.5	14.3	13.5	13.4
6	Tier 1^	**17.0**	16.8	16.6	16.0	15.9
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**17.0**	16.8	16.6	16.0	15.9
7	Total capital^	**20.0**	19.9	19.6	19.3	19.3
	Total capital as if IFRS 9 transitional arrangements had not been applied	**20.0**	19.9	19.6	19.3	19.3
	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	2.4
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	1.0
UK-7d	Total SREP own funds requirements (TSCR ratio)	**12.0**	12.0	12.0	12.0	12.2
	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**	1.0	0.9	1.0	—
UK 10a	Other systemically important institution buffer	**1.0**	1.0	1.0	1.0	1.0
11	Combined buffer requirement	**5.4**	4.5	4.4	4.5	3.5
UK-11a	Overall capital requirements	**17.4**	16.5	16.4	16.5	15.7
12	CET1 available after meeting the total SREP own funds requirements	**8.0**	7.8	7.6	6.8	6.5
	Leverage ratio					
13	Total exposure measure excluding claims on central banks (£m)	**266,036**	264,561	261,676	251,500	261,410
14	Leverage ratio excluding claims on central banks (%)	**6.4**	6.3	6.3	5.9	5.6
	Average exposure measure excluding claims on central banks (£m)	**265,422**	260,415	250,848	252,024	255,863
	Additional leverage ratio disclosure requirements					
14a	Fully loaded expected credit losses ('ECL') accounting model leverage ratio excluding claims on central banks (%)	**6.4**	6.3	6.3	5.9	5.6
14b	Leverage ratio including claims on central banks (%)^	**5.0**	4.8	4.7	4.2	4.1
14c	Average leverage ratio excluding claims on central banks (%)^	**6.4**	6.5	6.2	5.9	5.7
14d	Average leverage ratio including claims on central banks (%)^	**5.0**	4.9	4.5	4.2	4.2
14e	Countercyclical leverage ratio buffer (%)	**0.7**	0.3	0.3	0.3	—
EU-14d	Leverage ratio buffer requirement (%)	**1.1**	0.7	0.7	0.7	0.4
EU-14e	Overall leverage ratio requirements (%)	**4.4**	3.9	3.9	3.9	3.6
	Liquidity coverage ratio ('LCR')					
15	Total high-quality liquid assets (£m)	**98,181**	102,757	107,018	110,722	114,008
UK-16a	Cash outflows – total weighted value (£m)	**53,363**	53,629	53,632	53,740	53,710
UK-16b	Cash inflows – total weighted value (£m)	**5,702**	5,393	5,009	4,793	4,638
16	Total net cash outflow (£m)	**47,661**	48,236	48,623	48,946	49,072
17	LCR ratio (%)	**206**	213	220	226	232
	Net stable funding ratio ('NSFR')					
18	Total available stable funding (£m)	**266,701**	269,524	272,487	273,802	274,870
19	Total required stable funding (£m)	**166,740**	166,895	166,886	166,551	166,921
20	NSFR ratio (%)	**160**	162	163	164	165

* *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.*

At 30 Sep 2023, our CET1 capital ratio increased to 14.7% from 14.5% at 30 June 2023.

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

- an increase of 0.4 percentage from £0.4bn of capital generation mainly through profits net of dividends.
- a decrease of 0.2 percentage from the increase in RWAs of £1.5bn.

Our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 3.97% of RWAs, of which 2.2% was met by CET1 capital. Throughout 3Q23, we complied with the PRA's regulatory capital adequacy requirements.

Our leverage ratio was 6.4% at 30 September 2023, up from 6.3% at 30 June 2023, due to £0.4bn of capital generation mainly through profits net of dividends. This was partly offset by increase in the leverage exposure by £1.4bn.

Average Leverage ratio was 6.4% at 30 September 2023, which is 0.1% lower than 6.5% at June 30 2023. This was due to an increase of average leverage exposure by £5bn, primarily due to growth in the average balance sheet partially offset by increase in average tier 1 capital by £0.1bn.

Risk-weighted assets

The table below shows the total RWAs and the corresponding total own funds requirement split by risk type. The 'Total own funds requirements' below represents the minimum capital charge set at 8% of RWAs by Article 92 of CRR II.

Table 2: Overview of RWAs (OV1)

		At			
		30 Sep 2023	30 Jun 2023	**30 Sep 2023**	30 Jun 2023
		RWAs	RWAs	**Total own funds requirement**	Total own funds requirement
		£m	£m	**£m**	£m
1	**Credit risk (excluding counterparty credit risk)**	**88,219**	86,354	**7,058**	6,908
2	– standardised approach	**10,682**	10,471	**855**	838
3	– foundation internal ratings-based ('FIRB') approach	**41,296**	41,089	**3,304**	3,287
4	– slotting approach	**5,633**	5,068	**451**	405
5	– advanced IRB ('AIRB') approach	**30,608**	29,726	**2,449**	2,378
6	**Counterparty credit risk ('CCR')**	**167**	431	**13**	35
7	– standardised approach	**61**	256	**5**	20
UK-8a	– exposures to a central counterparty	**83**	86	**7**	7
UK-8b	– credit valuation adjustment	**17**	69	**1**	6
9	– other counterparty credit risk[1]	**6**	20	**—**	2
16	**Securitisation exposures in the non-trading book**	**354**	392	**28**	31
17	– internal ratings-based approach ('SEC-IRBA')	**221**	252	**18**	20
18	– external ratings-based approach ('SEC-ERBA') (including internal assessment approach ('IAA'))	**4**	—	**—**	—
19	– standardised approach ('SEC-SA')	**129**	140	**10**	11
20	**Position, foreign exchange and commodities risks (market risk)**	**82**	182	**7**	15
21	– standardised approach	**82**	182	**7**	15
23	**Operational risk**	**11,741**	11,739	**939**	939
UK-23b	– standardised approach	**11,741**	11,739	**939**	939
29	**Total**	**100,563**	99,098	**8,045**	7,928
24	– *of which: amounts below the thresholds for deduction (subject to 250% risk-weight)*[2]	***564***	*808*	***45***	*65*

1 *Other counterparty credit risk includes RWAs on securities financing transactions and free deliveries.*
2 *Balances are included in rows 1 and 2 of the table.*

Credit risk, including amounts below the thresholds for deduction

Excluding £0.2bn increase due to foreign translation differences, Credit risk RWAs increased by £1.7bn during the quarter.

Standardised RWAs increased by £0.2bn due to growth in corporate lending.

Advanced IRB RWAs increased by £0.7bn due to underlying portfolio mix in mortgages and credit migrations in cards portfolio and by £0.2bn due to increased mortgage lending.

Slotting IRB RWAs increased by £0.5bn due to credit migrations in corporate real estate exposures within commercial banking.

Counterparty Credit risk

Counterparty Credit risk RWAs decreased by £0.2bn mainly due to reduction of derivative exposures in HSBC Innovation Bank Limited.

Market risk

Market risk RWAs decreased by £0.1bn mainly due to lower transactional foreign exchange exposures.

The table below presents the drivers of the quarterly movements of credit risk RWAs (excluding counterparty credit risk) under the internal ratings-based ('IRB') approach. The table excludes securitisation positions, equity exposures, non-credit obligation assets, and includes free deliveries.

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

		Quarter ended			
		30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
Ref		**£m**	£m	£m	£m
1	**RWAs at opening of period**	**74,917**	75,087	75,151	75,672
2	Asset size	**240**	1,494	(34)	(312)
3	Asset quality	**1,330**	16	442	(441)
4	Model updates	**(102)**	(616)	—	—
5	Methodology and policy	**(162)**	(867)	(316)	232
7	Foreign exchange movements[1]	**242**	(197)	(156)	—
9	**RWAs at end of period**	**76,465**	74,917	75,087	75,151

1 *Foreign exchange movements in this disclosure are computed by retranslating the RWAs into GBP based on the underlying transactional currencies. 31 December 2022 balances are not restated.*

Excluding £0.2bn increase due to foreign translation differences, RWAs under the IRB approach increased by £1.3bn during the quarter.

Asset size movements increased RWAs by £0.2bn mainly driven by increased mortgage lending.

Asset quality changes led to a £1.3bn increase in RWAs due to changes in the underlying portfolio mix and credit migrations.

The £0.1bn decrease in RWAs for model updates was due to the movement of multilateral development banks exposures to the standardised approach following the approval from the PRA.

Changes in methodology and policy caused £0.2bn decrease 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. HSBC UK's average LCR for the 12 months was 206% as at 30 September 2023 and 213% as at 30 June 2023, well above minimum regulatory requirements. The reduction in average LCR is mainly on account of mortgage growth of c.£1bn and deposit reduction of c.£4bn.

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.

HSBC UK's average NSFR over the four quarters to 30 September 2023 was 160% and 162% at 30 June 2023, well above the minimum regulatory requirements. The reduction in average NSFR is mainly on account of mortgage growth of c.£1bn and deposit reduction of c £4bn.

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 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 31 of the *Interim Report 2023* and page 53 of the *Annual Report and Accounts 2022*.

The table 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, 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							
		30 Sep 2023		30 Jun 2023		31 Mar 2023		31 Dec 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')		**98,181**		102,757		107,018		110,722
Cash outflows									
2	Retail deposits and small business funding	**198,657**	**16,355**	202,307	16,675	204,713	16,800	205,647	16,718
3	– *of which:* *stable deposits*	***125,071***	***6,253***	*126,378*	*6,319*	*127,527*	*6,377*	*128,482*	*6,424*
4	*less stable deposits*	***73,586***	***10,102***	*75,929*	*10,356*	*77,186*	*10,423*	*77,165*	*10,294*
5	Unsecured wholesale funding	**74,220**	**28,887**	74,905	29,005	75,164	28,975	75,367	29,084
6	– operational deposits (all counterparties) and deposits in networks of cooperative banks	**22,593**	**5,282**	22,667	5,302	22,532	5,274	22,250	5,217
7	– non-operational deposits (all counterparties)	**51,476**	**23,454**	52,087	23,552	52,498	23,567	52,972	23,722
8	– unsecured debt	**151**	**151**	151	151	134	134	145	145
10	Additional requirements	**24,845**	**3,678**	23,860	3,374	22,766	3,105	22,405	2,998
11	– outflows related to derivative exposures and other collateral requirements	**729**	**728**	691	691	652	651	578	578
13	– credit and liquidity facilities	**24,116**	**2,950**	23,169	2,683	22,114	2,454	21,827	2,420
14	Other contractual funding obligations	**701**	**475**	745	522	728	502	698	471
15	Other contingent funding obligations	**54,709**	**3,968**	54,472	4,054	54,543	4,250	55,429	4,468
16	**Total cash outflows**		**53,363**		53,629		53,632		53,739
Cash inflows									
17	Secured lending transactions (including reverse repos)	**3,702**	**71**	4,459	56	4,231	49	3,266	49
18	Inflows from fully performing exposures	**4,036**	**3,334**	3,683	2,987	3,425	2,687	3,261	2,514
19	Other cash inflows	**10,655**	**2,297**	10,845	2,350	10,803	2,273	10,593	2,230
20	**Total cash inflows**	**18,393**	**5,702**	18,987	5,393	18,459	5,009	17,120	4,793
UK-20c	Inflows subject to 75% cap	**18,393**	**5,702**	18,987	5,393	18,459	5,009	17,120	4,793
Liquidity coverage ratio (adjusted value)									
UK-21	Liquidity buffer		**98,181**		102,757		107,018		110,722
22	Total net cash outflows		**47,661**		48,236		48,623		48,946
23	Liquidity coverage ratio (%)		**206.0**		213.0		220.1		226.2

Abbreviations

AIRB[1]	Advanced internal ratings-based approach
AT1 capital	Additional tier 1 capital
Basel	Basel Committee on Banking Supervision
Basel III	Basel Committee's reforms to strengthen global capital and liquidity rules
Basel 3.1	Outstanding measures to be implemented from the Basel III reforms
CCR[1]	Counterparty credit risk
CET1[1]	Common equity tier 1
CRR II	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
EBA	European Banking Authority
EEA	European Economic Area
ECAI	External Credit Assessment Institution
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
IAA	Internal assessment approach
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 external rating-based approach
SEC-IRBA	Securitisation internal rating-based approach
SEC-SA	Securitisation standardised approach
SREP	Supervisory review and evaluation process
SVB UK	Silicon Valley Bank UK Limited, now HSBC Innovation Bank Limited
UK	United Kingdom

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

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