HSBC UK Bank plc

Pillar 3 Disclosures at 30 September 2024

HSBC

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Presentation of information

This document comprises the 30 September 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 9.

This document may contain certain forward-looking statements with respect to the financial condition,environment, social and governance ("ESG") related matters, results 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, including ESG related factors, could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

This document should be read in conjunction with our Annual Report and Accounts 2023 and Interim Report 2024, which have been published on the HSBC Group website at www.hsbc.com/investors.

Introduction

Pillar 3 disclosures and governance

Regulatory framework for disclosures

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 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. These disclosures are made in accordance with the Prudential Regulation Authority ('PRA') Rulebook Disclosure (CRR). 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'.

Regulatory reporting processes and controls

We are advancing a comprehensive initiative aimed at strengthening our global processes, enhancing consistency, and improving controls across our regulatory reporting. This remains a top priority for both HSBC management and regulatory authorities. This multifaceted 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 regulatory ratios, such as the common equity tier 1 ('CET1') ratio, 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 ('RWA') 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 Bank plc Pillar 3 disclosures at 30 September 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.

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				
		30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2023	30 Sep 2023
Ref	**Available capital (£m)**					
1	Common equity tier 1 ('CET1') capital	**14,966**	14,550	14,611	14,224	14,818
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**14,956**	14,538	14,599	14,194	14,794
2	Tier 1 capital	**17,220**	16,802	16,864	16,479	17,072
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**17,210**	16,790	16,852	16,449	17,048
3	Total capital	**20,375**	19,990	20,053	19,772	20,140
	Total capital as if IFRS 9 transitional arrangements had not been applied	**20,365**	19,978	20,041	19,742	20,117
	Risk-weighted asset ('RWAs') (£m)					
4	Total RWAs	**105,494**	104,352	102,218	101,478	100,563
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**105,484**	104,340	102,206	101,450	100,542
	Capital ratios (%)					
5	CET1	**14.2**	13.9	14.3	14.0	14.7
	CET1 as if IFRS 9 transitional arrangements had not been applied	**14.2**	13.9	14.3	14.0	14.7
6	Tier 1	**16.3**	16.1	16.5	16.2	17.0
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**16.3**	16.1	16.5	16.2	17.0
7	Total capital	**19.3**	19.2	19.6	19.5	20.0
	Total capital as if IFRS 9 transitional arrangements had not been applied	**19.3**	19.2	19.6	19.5	20.0
	Additional own funds requirements based on supervisory review and evaluation process ('SREP') as a percentage of RWAs (%)					
UK-7a	Additional CET1 SREP requirements	**2.1**	2.2	2.2	2.2	2.2
UK-7b	Additional AT1 SREP requirements	**0.7**	0.7	0.7	0.7	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)	**11.8**	11.9	11.9	11.9	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	1.9	1.9
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	5.4	5.4
UK-11a	Overall capital requirements	**17.2**	17.3	17.3	17.3	17.4
12	CET1 available after meeting the total SREP own funds requirements	**7.6**	7.2	7.6	7.3	8.0
	Leverage ratio					
13	Total exposure measure excluding claims on central banks (£m)	**298,786**	283,626	275,419	270,907	266,036
14	Leverage ratio excluding claims on central banks (%)	**5.8**	5.9	6.1	6.1	6.4
	Additional leverage ratio disclosure requirements					
14a	Fully loaded expected credit losses ('ECL') accounting model leverage ratio excluding claims on central banks (%)	**5.8**	5.9	6.1	6.1	6.4
14b	Leverage ratio including claims on central banks (%)	**4.9**	4.9	4.9	4.8	5.0
14c	Average leverage ratio excluding claims on central banks (%)	**6.0**	6.1	6.2	6.4	6.4
14d	Average leverage ratio including claims on central banks (%)	**5.0**	5.0	5.0	5.1	5.0
14e	Countercyclical leverage ratio buffer (%)	**0.7**	0.7	0.6	0.6	0.7
EU-14d	Leverage ratio buffer requirement (%)	**1.1**	1.1	1.0	1.0	1.1
EU-14e	Overall leverage ratio requirements (%)	**4.4**	4.4	4.3	4.3	4.4
	Liquidity coverage ratio ('LCR')					
15	Total high-quality liquid assets (£m)	**90,355**	90,445	92,036	94,765	98,181
UK-16a	Cash outflows – total weighted value (£m)	**52,601**	52,424	52,860	53,058	53,363
UK-16b	Cash inflows – total weighted value (£m)	**5,548**	5,637	5,807	5,823	5,702
16	Total net cash outflow (£m)	**47,053**	46,787	47,053	47,234	47,661
17	LCR ratio (%)	**192**	193	196	201	206
	Net stable funding ratio ('NSFR')					
18	Total available stable funding (£m)	**263,472**	262,905	262,779	264,729	266,701
19	Total required stable funding (£m)	**170,029**	169,075	168,217	167,523	166,740
20	NSFR ratio (%)	**155**	155	156	158	160

At 30 September 2024, our CET1 capital ratio increased to 14.2% from 13.9% at 30 June 2024.

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

- an increase of 0.5% from £0.5bn of capital generation mainly through profits net of dividends.
- a decrease of 0.2% driven by higher RWAs of £1.1bn mainly from asset size movements, partially offset by a decrease from methodology updates.

At 30 September 2024, our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 3.80% of RWAs, of which 2.1% was met by CET1 capital. Throughout 3Q24, we complied with the PRA's regulatory capital adequacy requirements.

Basel 3.1 developments

In the UK, the PRA published its second set of near-final rules on credit risk, the output floor, and reporting and disclosure elements of Basel III Reforms ('Basel 3.1') in September 2024. Near-final rules in relation to the market risk, credit valuation adjustments, counterparty risk and operational risk elements of the package were published by the PRA in December 2023. The implementation date is delayed by a further six months to 1 January 2026, with an output floor transitional period of four years until 31 December 2029.

We continue to assess the impact of these rules on our capital and associated implementation challenges including data provision.

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			
		30 Sep 2024	30 Jun 2024	**30 Sep 2024**	30 Jun 2024
		RWAs	RWAs	**Total own funds requirement**	Total own funds requirement
		£m	£m	**£m**	£m
1	**Credit risk (excluding counterparty credit risk)**	**90,605**	89,506	**7,248**	7,161
2	– standardised approach	**10,835**	10,758	**867**	861
3	– foundation internal ratings-based ('FIRB') approach	**43,036**	42,301	**3,443**	3,384
4	– slotting approach	**4,845**	5,065	**388**	405
5	– advanced IRB ('AIRB') approach	**31,889**	31,382	**2,551**	2,511
6	**Counterparty credit risk ('CCR')**	**248**	180	**20**	14
7	– standardised approach	**119**	68	**10**	5
UK-8a	– exposures to a central counterparty	**89**	80	**7**	6
UK-8b	– credit valuation adjustment	**26**	22	**2**	2
9	– other counterparty credit risk	**14**	10	**1**	1
16	**Securitisation exposures in the non-trading book**	**899**	935	**72**	75
17	– internal ratings-based approach ('SEC-IRBA')	**733**	783	**59**	63
18	– external ratings-based approach ('SEC-ERBA') (including internal assessment approach ('IAA'))	**—**	5	**—**	—
19	– standardised approach ('SEC-SA')	**166**	147	**13**	12
20	**Position, foreign exchange and commodities risks (market risk)**	**135**	124	**11**	10
21	– standardised approach	**135**	124	**11**	10
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**	**105,494**	104,352	**8,440**	8,349
24	– of which: amounts below the thresholds for deduction (subject to 250% risk-weight)[1]	**588**	594	**47**	48

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

Excluding £0.5bn decrease due to foreign currency translation differences, Credit risk RWAs increased by £1.6bn during the quarter.

Foundation IRB approach RWAs increased by £0.7bn mainly due to growth in corporate lending, partly offset by data quality improvements and risk parameter refinements.

Slotting approach RWAs declined by £0.2bn due to decrease in specialised lending.

Advanced IRB RWAs increased by £0.5bn mainly due to growth in retail mortgages.

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			
		30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2023
Ref		**£m**	£m	£m	£m
1	**RWAs at opening of period**	**77,819**	75,622	74,900	76,465
2	Asset size	**1,861**	1,151	589	(69)
3	Asset quality	**(96)**	424	(137)	29
4	Model updates	**—**	95	—	(94)
5	Methodology and policy	**(500)**	548	261	(1,209)
7	Foreign exchange movements	**(311)**	(21)	9	(222)
9	**RWAs at end of period**	**78,773**	77,819	75,622	74,900

Excluding £0.3bn decrease due to foreign currency translation differences, RWAs under the IRB approach increased by £1.3bn during the quarter.

Asset size movements increased RWAs by £1.9bn mainly due to growth in corporate lending and retail mortgages.

Changes in methodology and policy caused £0.5bn decrease in RWAs due to data quality improvements and risk parameter refinements.

Leverage

Table 4 below provides the information of UK leverage ratios, buffers and average leverage ratios as per the UK's leverage ratio framework. With effect from 5 August 2024, LREQ firms are required to disclose the below table quarterly based on the PRA guidance.

Table 4: Leverage ratio common disclosure (UK LR2-LRCom)

		At	
		30 Sep 2024	30 Jun 2024
		£m	£m
25	**Leverage ratio excluding claims on central banks (%)**	**5.8**	5.9
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.8**	5.9
UK-25c	Leverage ratio including claims on central banks (%)	**4.9**	4.9
27	Leverage ratio buffer (%)	**1.1**	1.1
UK-27a	– of which: G-SII or O-SII additional leverage ratio buffer (%)	**0.4**	0.4
UK-27b	– of which: countercyclical leverage ratio buffer (%)	**0.7**	0.7
UK-32	Average total exposure measure excluding claims on central banks	**286,021**	280,405
UK-33	Average leverage ratio including claims on central banks (%)	**5.0**	5.0
UK-34	Average leverage ratio excluding claims on central banks (%)	**6.0**	6.1

The leverage ratio decreased to 5.8% from 5.9% at 30 June 2024. The 0.3% decrease due to an increase in the leverage exposures by £15bn, primarily driven by increase in reverse repo balances, was partly offset by a 0.2 % increase from £0.4bn of capital generation mainly through profits net of dividend.

The average leverage ratio decreased to 6.0% from 6.1% at 30 June 2024, primarily due to a £6bn increase in average leverage exposure, mainly on account of growth in average balance sheet.

Liquidity risk

Management of liquidity and funding risk

We aim to ensure that management has oversight of our liquidity and funding risks 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 disclosure of the LCR, we follow Article 451a of CRR II.

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

At 30 September 2024, HSBC UK's LCR was above regulatory minimum. Average LCR as at 30 September 2024 was 192% as compared to 193% as at 30 June 2024. The decrease of 1% is mainly due to decrease in average deposits by £0.2bn and growth in average mortgage lending by £1bn.

Net stable funding ratio

We use the 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. The NSFR is defined as the ratio between the amount of available stable funding and the amount of required stable funding.

At 30 September 2024, HSBC UK's NSFR was above regulatory minimum. Average NSFR as at 30 September 2024 was 155%, as compared to 155% as at 30 June 2024.

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 customer 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.

More details on the concentration of funding and liquidity sources may be found on page 29 of the Interim Report 2024 and page 58 of the Annual Report and Accounts 2023.

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.

Table 5 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 5: UK LIQ1 - Quantitative information of LCR

		Quarter ended							
UK-1a		**30 Sep 2024**		30 Jun 2024		31 Mar 2024		31 Dec 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
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')		**90,355**		90,445		92,036		94,765
Cash outflows									
2	Retail deposits and small business funding	**191,220**	**15,790**	191,540	15,754	193,033	15,858	195,364	16,039
3	– of which: stable deposits	**121,307**	**6,065**	121,847	6,092	122,718	6,136	123,853	6,193
4	less stable deposits	**69,913**	**9,725**	69,693	9,662	70,315	9,722	71,511	9,846
5	Unsecured wholesale funding	**70,536**	**27,710**	71,088	27,880	72,326	28,382	73,345	28,719
6	– operational deposits (all counterparties) and deposits in networks of cooperative banks	**22,555**	**5,302**	22,198	5,209	22,150	5,188	22,248	5,203
7	– non-operational deposits (all counterparties)	**47,830**	**22,257**	48,745	22,526	50,020	23,038	50,932	23,351
8	– unsecured debt	**151**	**151**	145	145	156	156	165	165
9	Secured wholesale funding		**2**		1		—		—
10	Additional requirements	**44,824**	**5,487**	37,559	5,008	30,468	4,499	25,333	3,980
11	– outflows related to derivative exposures and other collateral requirements	**790**	**789**	748	746	723	721	733	731
13	– credit and liquidity facilities	**44,034**	**4,698**	36,811	4,262	29,745	3,778	24,600	3,249
14	Other contractual funding obligations	**1,360**	**1,058**	986	713	884	633	737	501
15	Other contingent funding obligations	**36,925**	**2,554**	44,194	3,068	51,368	3,488	55,564	3,818
16	**Total cash outflows**		**52,601**		52,424		52,860		53,057
Cash inflows									
17	Secured lending transactions (including reverse repos)	**6,093**	**100**	4,250	107	3,536	74	3,581	65
18	Inflows from fully performing exposures	**4,176**	**3,413**	4,237	3,491	4,313	3,583	4,257	3,544
19	Other cash inflows	**9,769**	**2,035**	9,764	2,039	9,961	2,150	10,281	2,214
20	**Total cash inflows**	**20,038**	**5,548**	18,251	5,637	17,810	5,807	18,119	5,823
UK-20c	Inflows subject to 75% cap	**20,038**	**5,548**	18,251	5,637	17,810	5,807	18,119	5,823
Liquidity coverage ratio (adjusted value)									
UK-21	Liquidity buffer		**90,355**		90,445		92,036		94,765
22	Total net cash outflows		**47,053**		46,787		47,053		47,234
23	Liquidity coverage ratio (%)		**192**		193		196		201

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
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[1]	The regulatory requirements of the PRA Rulebook, Capital Requirements Regulation and Directive, and the CRR II regulation (EU 2019/876)
Dec	December
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
ESG	Environmental, Social and Governance
EU	European Union
FIRB[1]	Foundation internal-ratings based approach
HQLA	High-quality liquid assets
IAA	Internal assessment approach
IFRS[1]	International Financial Reporting Standards
IRB[1]	Internal ratings-based approach
Jun	June
LCR[1]	Liquidity coverage ratio
LREQ firm	A firm or CRR consolidation entity to which the minimum requirements of the Leverage Ratio – Capital Requirements and Buffers Part of the PRA Rulebook applies
Mar	March
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
Sep	September
SREP	Supervisory review and evaluation process
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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