

The background of the slide features a photograph of a paved road winding through a valley towards a range of jagged, snow-capped mountains under a clear sky. In the foreground, a person's hand is visible on a steering wheel, suggesting the perspective of someone driving. The image is partially overlaid by decorative graphic elements.

Actuarial valuation as at 31 December 2022

HBUK Section of the HSBC Bank (UK) Pension
Scheme

25 March 2024

Summary

The HSBC Bank (UK) Pension Scheme was segregated into two sections with effect from 30 September 2015: “the HSBC Bank Section” and “the HSBC Global Services Section”. The Scheme was segregated further with effect from 1 July 2018 to create an additional Section known as “the HSBC Bank plc Section”, with the HSBC Bank Section renamed as the HBUK Section. The terms on which the Scheme was further segregated are set out in the 58th Deed of Variation (“Deed of Amendment, Admission and Agreement”, dated 3 April 2018 or the “Second Segregation Deed”).

The main results of the actuarial valuation for the HBUK Section of the HSBC Bank (UK) Pension Scheme are, after allowing for certain post valuation date events, as follows:

- Technical provisions DB funding level as at 31 December 2022 has increased to 121% (2019: 109%), corresponding to a surplus of £3,650 million as at 31 December 2022 (2019: £2,490 million)



- Since the HBUK Section’s technical provisions fall below the value of the assets stated in the annual report and accounts, a recovery plan is not required.
- Accrual of defined benefits ceased in this Section of the Scheme with effect from 30 June 2015 (although salary linkage was retained) and so no contributions are required in respect of benefit accrual.
- Going forwards, annual investment management charges, and other DC and DB expenses of administration and management in respect of the HBUK Section will continue to be met from the general assets of this Section of the Scheme. An allowance of £430m is included in the technical provisions as at 31 December 2022 in respect of these arrangements.
- The cost of providing defined benefit risk benefits to DC members of this Section will also be met from the general assets of the Scheme from 1 January 2024. (A contribution rate of 1.5% of DC members’ dcs pensionable salaries (as defined in the Scheme’s Trustee Deed and Rules) was paid over 2023.)
- The DB asset cover by reference to a basis consistent with the Scheme Actuary’s statutory estimate of solvency as at 31 December 2022 has increased to 114% (2019: 93%).
- In future, the Trustee will also monitor the funding position of the HBUK Section by reference to a ‘Low-Risk Funding Measure’ (“LRFM”). As at 31 December 2022, the HBUK Section had an LRFM funding level of 114% corresponding to a surplus of £2,610 million.

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Throughout this report the following terms are used:

Section of the Scheme

HBUK Section of the HSBC Bank (UK) Pension Scheme

Trustee

HSBC Bank Pension Trust (UK) Ltd

Principal Employer

For the purposes of this report, this phrase refers to the Employer performing the role of “the bank” under the Trust Deed and Rules. For this Section, this is HSBC UK Bank plc

Employers

Participating Employers of this section of the Scheme

Trust Deed & Rules

The Scheme’s Trust Deed and Rules as adopted by 60th Deed of Variation dated 16 December 2019

Introduction

Scope

This report is the actuarial valuation of the HBUK Section of the HSBC Bank (UK) Pension Scheme as at 31 December 2022 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial valuation is required under the terms of Clause 18 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004. Clause 18 of the Scheme's Trust Deed and Rules requires the Actuary appointed by the Trustee of the Scheme to report to the Trustee and the Principal Employer of the Scheme (as defined above) on the financial position of the Scheme at periods not exceeding 3 years and make such recommendations as he thinks fit. This report is addressed to the Trustee and the Principal Employer, thus satisfying this Clause. However, in practice, the Employers have sought separate advice on the funding policy to be adopted for the Scheme and this report has therefore, effectively, been prepared on behalf of the Trustee to satisfy the Trust Deed and Rules and the relevant statutory requirements applicable to this investigation. A copy of this report must be provided to the Employers within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the HBUK Section of the Scheme relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the HBUK Section of the Scheme at 31 December 2022 using several different measures of its liabilities and how it has changed since the previous valuation at 31 December 2019. It also describes the strategy that has been agreed between the Trustee and Principal Employer for financing the Scheme in future and provides projections of the funding position at the expected date of the next valuation.

This report and the work involved in the actuarial valuation are within the scope of, and comply with, the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the HBUK Section and the level of Principal Employer contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out at 31 December 2025.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the HBUK Section's assets and technical provisions. The next such report, which will have an effective date of 31 December 2023, must be completed by 31 December 2024.



C G Singer
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company

25 March 2024

Towers Watson Limited
Watson House
London Road
Reigate
Surrey, RH2 9PQ

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Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of any section of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The membership data at 31 December 2022 was provided by the Scheme's administrators, Equiniti, on 14, 15, 17 and 28 March 2023.

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Principal Employer who must provide and update certain membership information. Even so, it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of this Section of the Scheme, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the Data Protection Act). Data controllers would include the Trustee of the Scheme and may also include the Scheme Actuary and Towers Watson, so we have provided further details on the way we may use this data on our website at <https://www.willistowerswatson.com/en-GB/Notices/how-willis-towers-watson-uses-personal-data-for-actuarial-services-to-uk-pension-scheme-trustees>.

Assumptions

The choice of long-term assumptions, as set out in the HBUK Section's Statement of Funding Principles dated 25 March 2024, is the responsibility of the Trustee, in agreement with the Principal Employer, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Scheme's experience from time to time to be better or worse than that assumed. The Trustee and the Principal Employer must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the HBUK Section is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk and, in particular, no explicit allowance has been made for climate-related risks.

Funding

Statutory funding objective

The Trustee's primary funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the HBUK Section's technical provisions.

In the case of the HBUK Section of the HSBC Bank (UK) Pension Scheme, the technical provisions are to be calculated as the sum of:

- the additional voluntary contribution balances relating to defined benefit membership of the Scheme attributable to members of the HBUK Section, as stated in the audited accounts for this Section of the Scheme, plus
- the accumulated defined contribution balances held in respect of the members of the HBUK Section of the Scheme, and other defined contribution assets held in respect of this Section which are not designated to members, as stated in the audited accounts for this Section of the Scheme, plus
- the amount expected to be required to provide for the dependants' pensions arising following the death of a DC member of this Section of the Scheme, based on assumptions about what the future will bring, plus
- the amount expected to be required to provide for the defined benefits of members provided under the HBUK Section of the Scheme arising from service completed up to 30 June 2015 and including allowance for salary increases for hybrid members who retain salary linkage in this Section of the Scheme, based on assumptions about what the future will bring. The assumptions used will be based on the principles set out in the Statement of Funding Principles dated 25 March 2024. For hybrid members of the HSBC Global Services Section and the HSBC Bank plc Section, the defined benefits taken into account in the HBUK Section's funding plan are those to which such members would have been entitled had they opted to terminate pensionable service on 30 June 2015, plus
- an amount corresponding to certain expenses and annual management charges expected to be met from the assets of this Section of the Scheme.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service only up to 30 June 2015, the date that the Scheme closed to future accrual, are taken into account in this calculation (although, where applicable, an allowance is made for an assumed level of increases to future pensionable earnings for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the HBUK Section of the Scheme over the next 80 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 December 2022 have been agreed between the Trustee and Principal Employer and are documented in the Statement of Funding Principles dated 25 March 2024.

The main assumptions used to calculate the HBUK Section of the Scheme's technical provisions are set out in the Additional Information section of this report. These main assumptions are broadly the same as those adopted for the 2019 investigation, except that:

- The difference between RPI and CPI is assumed to follow a term dependent gap reducing to nil by the end of 2030. That is, CPI is assumed to be 1.5% pa below RPI to end 2025, 1.0% pa below RPI to the end of 2030, and in line with RPI thereafter. (This compares to the 2019 assumption of CPI being 1.0% pa below RPI to 2030 and 0.5% pa below RPI thereafter.)

- The data supplied for the valuation included details of each hybrid member's pensionable salary as at 1 March 2023 and so that salary has been used for the basis for our projections. Future salary growth from and including 1 March 2024 onwards is assumed to be in line with CPI plus 75 bps pa up to a maximum of £300,000pa.
- The Trustee entered into longevity hedging agreements with Prudential Insurance Company of America ("PICA") and Swiss Re Europe SA ("Swiss Re") during 2019 which, together, covered the pension payments for approximately 75% of pensioners and dependants as at the 'on-risk' date (31 December 2018). The calculation of the technical provisions for this Section of the Scheme as at 31 December 2022 reflects the terms of these longevity hedges for those benefits covered by it, as was the case for the 2019 actuarial valuation. However there has been a number of changes to the mortality assumptions adopted for those benefits not covered by the longevity hedging arrangements:
 - For pensioners and dependants not covered by the longevity hedging arrangements, the mortality assumptions adopted reflect a best estimate of current mortality, estimated from an unweighted average of the actual mortality experienced by members of the whole Scheme, over the three-year period from 1 January 2017 to 31 December 2019 (this period having been chosen in the light of a six-year averaging period having been adopted for the 31 December 2019 valuation, but with the experience for 2020 to 2022 now being excluded from the average due to the effects of the covid pandemic leading to additional uncertainty as to the likely rates of future mortality). Separate assumptions are adopted for males with pensions above and below £27,900 pa as at 1 January 2023. (For the 2019 valuation, the mortality assumptions adopted reflected a best estimate of current mortality, estimated from an unweighted average of the actual mortality experienced by members of the whole Scheme, over the six years to 31 December 2019. Separate assumptions were adopted for males with pensions above and below £25,000 pa as at 1 January 2020.)
 - The future improvements in mortality assumptions for pensioners and dependants not covered by the longevity hedging arrangements have been updated for males and females to reflect the 2022 CMI Mortality Projections Model with a long-term rate of 1.5% pa, a smoothing parameter of 7.5, an initial addition parameter of 0.5%, and, to reflect the covid pandemic, a nil weighting for 2020 and 2021 experience and a 25% weighting for 2022 experience. (The 2019 investigation reflected the 2019 CMI model with a long-term rate of 1.5% pa, a smoothing parameter of 7.5 and an initial addition parameter of 0.75%.) The reduction in the initial addition parameter reflects the latest evidence from the CMI which suggests that the difference in mortality experienced by pension scheme members and the general population is smaller than previously thought.
 - The resulting liability values are uplifted by a margin for prudence of 1.25% for the uninsured pensioner and dependant members who had already retired at the on-risk date of the longevity hedge and 2.25% for all other uninsured members. (For the 2019 valuation, the resulting liabilities were uplifted by a margin for prudence of 2.25% for the pensioner and dependant benefits in payment at 31 December 2018 not covered by the longevity hedge, and 3.25% for all other benefits not covered by the hedge.)
- No allowance has been made for commutation of any members' DB pensions in future, reflecting a simplifying assumption that, where taken, commutation terms will be broadly cost-neutral over time with the value of the pension given up based on the assumptions used to determine the technical provisions. (This compares to the 2019 assumption of no commutation being assumed for hybrid members under age 55 as at 31 December 2014. All other non-pensioners were assumed to commute 25% of pension, on terms 10% above those in force at the valuation date.)
- A loading of 2.3% is applied to the benefit cashflows to make provision for the expected expenses of administering defined benefit entitlements, which are to be met from the assets of the HBUK Section. (For the 2019 valuation, a reserve equal to the present value of the DB expenses expected to be met from the assets of the HBUK Section until end March 2024 was established.)

- A reserve of £60 million is established to make provision for the expenses of administration and annual management charges for DC benefits expected to be met from the assets of the HBUK Section for the period covered by the Schedule of Contributions. (A similar approach was followed for the 2019 valuation covering the period until end March 2024.)
- A reserve of 1% of the liabilities is included to make provision for the cost of equalising benefits between men and women for the unequal effects of GMP. (For the 2019 valuation, a fixed reserve of £200 million was included.)

The Trustee also now monitors the liabilities by reference to the Low-Risk Funding Measure (LRFM), which I have documented later in this report.

Valuation Statement

The table below compares this Section's technical provisions as at the date of the actuarial valuation (31 December 2022) with the market value of the Section's assets at that date (as shown in the Scheme's audited financial statements), and also shows the corresponding figures from the previous actuarial valuation. (Calculated figures have been rounded to the nearest £10 million.)

HSBC Bank (UK) Pension Scheme – HBUK Section	31 December 2022	31 December 2019
Valuation statement (Technical Provisions)	£m	£m
Amount required to provide for the HBUK Section's liabilities in respect of:		
Employed members	1,310	3,440
▪ Benefits for active members employed by employers participating in the HBUK Section	770	1,790
▪ Underpin benefits for members employed by employers participating in the Global Services Section	470	1,410
▪ Underpin benefits for members employed by employers participating in the Bank plc Section	70	240
Deferred pensioners	3,380	6,620
▪ Benefits for members employed immediately before leaving service by employers participating in the HBUK Section	3,370	6,550
▪ Underpin benefits for members employed immediately before leaving service by employers participating in the Global Services Section	10	50
▪ Underpin benefits for members employed immediately before leaving service by employers participating in the Bank plc Section	-	20
Pensioners and dependants	11,330	14,790
▪ Benefits for members employed immediately before leaving service by employers participating in the HBUK Section	11,270	14,590
▪ Underpin benefits for members employed immediately before leaving service by employers participating in the Global Services Section	50	170
▪ Underpin benefits for members employed immediately before leaving service by employers participating in the Bank plc Section	10	30
Additional reserve for potential GMP equalisation costs	160	200
Expected additional payments in respect of longevity hedge	420	580
Additional reserve in respect of prudence for mortality	190	460
Expense reserve	430	90
Total Defined Benefit liabilities	17,220	26,180
Defined Contribution liabilities	3,010	2,400
Liabilities total ("Technical Provisions")	20,230	28,580
Defined Benefit assets in audited accounts	20,870	28,660
Defined Contribution assets in audited accounts	3,010	2,400
Assets total	23,880	31,060
Surplus / (Shortfall)	3,650	2,480
Funding level (assets ÷ liabilities)	118%	109%
Defined Benefit funding level (defined benefit assets ÷ defined benefit liabilities)	121%	109%

Note: Neither assets nor liabilities include any allowance for the late notification of change of Section for employed members ("transfers across") since May 2022.

Post-valuation events

Transfers across

When a hybrid member leaves service with an employer in the HBUK Section, the HSBC Global Services Section or the HSBC Bank plc Section of the Scheme and enters employment with an employer in one of the other sections, there is an automatic transfer of liability (in respect of that part of the member's total defined benefits that exceeds the member's underpin pension) from the transferring section to the receiving section. In this circumstance the Trustee may, with the consent of the persons performing the role of the bank in relation to each of the transferring and receiving sections to the relevant basis of calculation, transfer assets from one section to the other in respect of the liability referred to above.

Following the effective date of the valuation, and subsequent to the data having been provided to us, a small number of members were identified as having transferred employment prior to the date of the valuation, the liabilities for whom were not reflected in the Valuation Statement above. The net transfer of assets payable from the HBUK Section (which is broadly equal, on a technical provisions basis, to the net value of the corresponding employed member liability that also transferred relative to the figures shown above) to the HSBC Bank plc Section, in respect of employment transfers prior to 31 December 2022 was £0.1m. The net amount payable to the HSBC Global Service Section was virtually nil. The transfer of assets took place late in 2023. As the assets and liabilities are affected to virtually the same degree, we have stated the results prior to this change and made no adjustment for these transfers in the technical provisions figures shown above or below.

Transfers back

The Trustee may, with the consent of the persons performing the role of the bank in relation to each of the transferring and receiving sections to the relevant basis of calculation, transfer liabilities and assets from the HSBC Global Services Section or the HSBC Bank plc Section to the HBUK Section in respect of the defined benefit liabilities payable to or in respect of a hybrid member's pensionable service when a hybrid member leaves service or, if earlier, when any benefits become payable from the scheme to or in respect of a hybrid member such that the whole benefit becomes a liability of (and is paid from) the HBUK Section.

Further, when a member of the HSBC Bank plc Section dies in service with an employer participating in the HSBC Global Services Section or the HSBC Bank plc Section, it may be that pension death benefits become payable in respect of the member under the dcs rules. In such circumstances, subject to the agreement of the persons performing the role of the bank in relation to each of the HBUK Section and the HSBC Global Services Section or the HSBC Bank plc Section to the basis for calculating the assets to be transferred, the Trustee may transfer assets and liabilities from the HSBC Global Services Section or the HSBC Bank plc Section to the HBUK Section, in respect of the pension death benefits that become payable in respect of the member under the dcs rules, so that the whole of such benefits become a liability of (and are paid from) the HBUK Section.

The amount of assets that would have been received had the transfer taken place on the effective date of the valuation, 31 December 2022, in respect of those members who left, retired or died in service before 31 December 2022 was £16.5 million from the HSBC Global Services Section and £2.8m from the HSBC Bank plc Section. The actual transfer of assets and liabilities took place in June 2023 (and the amounts transferred reflected market conditions closer to the date of transfer).

Restated funding position

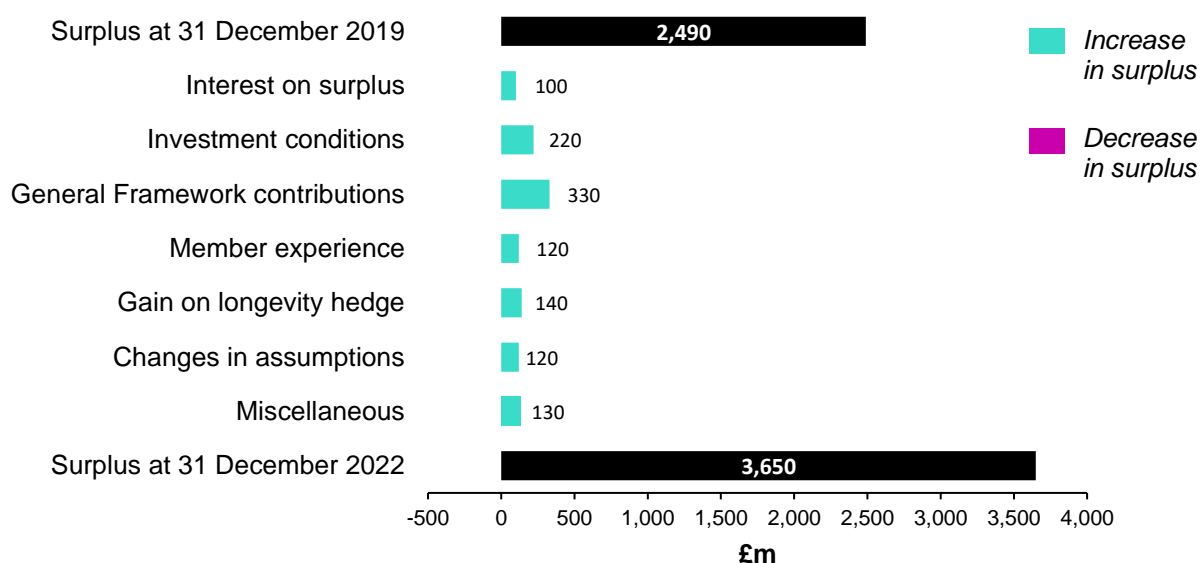
We have set out in the following table a summary of the defined benefit assets and liabilities of this Section, as at 31 December 2022, taking into account the transfers back post-valuation date event.

HSBC Bank (UK) Pension Scheme – HBUK Section	31 December 2022	31 December 2019
Valuation statement (DB funding position following transfers back)	£m	£m
Total Defined Benefit liabilities	17,240	26,260
Market value of Defined Benefit assets	20,890	28,750
Past service surplus/(deficit)	3,650	2,490
Funding level (assets ÷ technical provisions)	121%	109%

The funding position as at the actual date of transfer will have depended upon the HBUK Section's experience up to the date of transfer and, in particular, changes in market conditions over that period.

Developments since the previous valuation

The technical provisions surplus has increased to £3,650 million from £2,490 million at the previous valuation. The main factors contributing to this increase are shown below:



Contribution requirements

Contributions to provide for benefit accrual

Accrual of defined benefits ceased in this Section of the Scheme with effect from 30 June 2015. Thus no contributions are required to be paid in respect of benefit accrual after this date.

Contributions for risk benefits and expenses

Employer contributions of 1.5% of dc members' dc pensionable salaries (based on the dcs pensionable salary roll as at February 2023) were paid in 2023 (as set out in the Schedule of Contributions dated 22 December 2020) to meet the expected cost of defined benefits payable to spouses of dc members.

The estimated cost to the Section of providing these benefits in the year following the effective date of this valuation was 1.0% of dc members' dc pensionable salaries as at February in that year.

However, subject to the conditions set out in the Statement of Funding Principles and Schedule of Contributions each dated 25 March 2024, contributions from the employer to meet the estimated cost of providing these benefits will cease with effect from 1 January 2024 and the full cost of the benefits will be met from the general assets of the HBUK Section.

Annual investment management charges in relation to defined benefit funds, along with the expenses of management and administration (and including management charges in relation to defined contribution balances), shall, subject to the conditions set out in the Statement of Funding Principles and Schedule of Contributions each dated 25 March 2024, be met from the general assets of the HBUK Section.

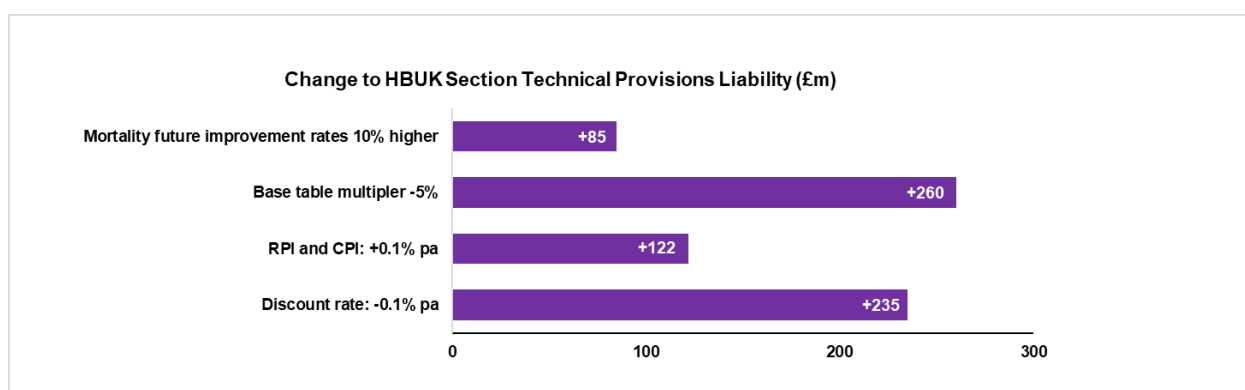
Recovery plan

As there were sufficient assets to cover the HBUK Section's technical provisions at the valuation date, a recovery plan is not required.

Projections and sensitivities

Based on the assumptions underlying the calculation of the HBUK Section's technical provisions as at 31 December 2022 and allowing for investment return at a best estimate rate, the funding level is expected to increase over time, after allowing for the expected, modest level of surplus usage as described in the Schedule of Contributions dated 25 March 2024.

The calculation of the technical provisions as at 31 December 2022 is sensitive to variations of individual assumptions. Of these, the assumptions which have the biggest impact are the discount rate, the allowance for future rates of mortality and future levels of RPI inflation.



Discontinuance

In the event that the HBUK Section of the Scheme is discontinued, the benefits of employed members would crystallise and become deferred pensions in this Section of the Scheme. There would be no entitlement to continued salary linkage of defined benefits or further contributions paid into Defined Contribution accounts.

If the HBUK Section's discontinuance is not the result of the insolvency of the Employers, the Employers would ultimately be required to pay to this Section of the Scheme any deficit between the Scheme Actuary's estimate of the full cost of securing members' benefits with an insurance company (including expenses) and the value of the assets held – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustee may decide to run this Section of the Scheme as a closed fund for a period of years before buying such policies.

If the discontinuance of this Section of the Scheme is a result of the insolvency of the Employers, the "employer debt" would be determined as above and the HBUK Section of the Scheme would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Employers) were not sufficient to secure benefits equal to the PPF compensation then the HBUK Section of the Scheme would be admitted to, and members compensated by, the PPF. Otherwise the HBUK Section of the Scheme would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the HBUK Section of the Scheme at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the HBUK Section at the valuation date. For this purpose I have assumed that no further payments are received from the Principal Employer.

Specifically, I have assumed that the Trustee would secure annuities on average pricing consistent with the assumptions set out in the Appendix. Compared to the assumptions used in calculating the technical provisions, I have included a more prudent allowance for the CPI assumption (that is, a smaller gap below RPI is assumed) and a lower (more prudent) discount rate. My solvency estimate assumes a reserve of approximately £200 million would be required to provide for the expenses of winding up this Section and transitioning the assets, and a £170 million reserve to make provision for the potential costs of equalising Guaranteed Minimum Pensions, consistent with the reserve held within the technical provisions. A further reserve of £180 million is included for any residual risks that may arise on the wind-up of this Section of the Scheme.

It should be noted that there is considerable uncertainty over the terms that would be available in the insurance market, particularly in view of the HBUK Section's size and complexity. General market factors can also lead to significant variations in pricing between different insurers and from scheme to scheme, even at the same date. The speed with which the transaction is completed might also affect the cost, due to the need for any insurer to source appropriate assets to match the liabilities it was taking on. In estimating the cost below, I have assumed that the HBUK Section's liabilities would be secured over a three-to-five-year period, and so market experience for smaller-sized schemes might be assumed to apply. (Had I assumed the HBUK Section were bought out in a shorter timeframe, the estimated costs would likely have been higher.)

My estimate of the solvency position of the Section of the Scheme as at 31 December 2022 (prior to the funding impact of the post-valuation date events set out above) is set out in the table below alongside the corresponding details as at the previous valuation date:

HSBC Bank (UK) Pension Scheme – HBUK Section	31 December	31 December
Valuation statement (Statutory estimate of solvency)	2022	2019
	£m	£m
Total estimated cost	21,300	33,190
Market value of total assets in the audited accounts	23,880	31,060
Solvency (deficit) (total estimated cost less assets)	2,580	(2,130)
Solvency level (assets ÷ total estimated cost)	112%	94%

Post-valuation events (DB benefits only)

I have set out in the following table a summary of the defined benefit assets and liabilities (ie excluding DC assets/liabilities) of this Section on the Solvency measure, as at 31 December 2022, taking into account the transfer back post-valuation date event described above.

HBUK Section	31 December	31 December
Valuation statement (DB Solvency position following transfers back and across and early retirement contributions)	2022	2019
	£m	£m
Total estimated DB cost	18,310	30,880
Total DB assets	20,890	28,750
DB Solvency deficit	2,580	(2,130)
DB Solvency level (assets ÷ total estimated cost)	114%	93%

The solvency level has improved since the 2019 investigation due mainly to:

- Significant rises in gilt yields since 2019 which have reduced the cost of securing annuities
- General improvements in estimated buy-out pricing relative to gilt yields since 2019
- Lower expectations for future life expectancy
- The payment of General Framework Contributions by the employers

These effects were partly offset by the investment performance of the HSBC Section's assets being lower than assumed under the Solvency measure and price inflation being higher than anticipated.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the HBUK Section of the Scheme before 6 April 1997;
- category 2 – the cost to the HBUK Section of the Scheme of securing the compensation that would otherwise be payable by the PPF if the Principal Employer became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above;
- category 4 – all other pensions and benefits due under the Section of the Scheme, including pension increases (where these exceed those under the PPF).

As the assets of the HBUK Section covered the estimated cost of securing benefits with an insurer as at 31 December 2022, this Section of the Scheme is unlikely to have qualified for entry to the PPF had the Principal Employer become insolvent at 31 December 2022. Instead, there would have been sufficient assets to run as a closed fund with members' entitlements expected to be met in full, until such time as the Trustee had completed the winding-up of this Section of the Scheme and secured members' benefits in full with an insurance company.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing defined benefits with an insurance company of £18,310 million is £1,070 million higher than the element of the Scheme's technical provisions relating to defined benefits (adjusted for post valuation date events as described above) of £17,240 million.

The technical provisions are intended to be a prudent assessment of the assets required under the HBUK Section's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Principal Employer being able to support the Section in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the HBUK Section without having recourse to future contributions from the Principal Employer.

Projections and sensitivities

Based on the assumptions broadly consistent with those underlying the calculation of the HBUK Section of the Scheme's technical provisions as at 31 December 2022 the solvency level is projected to improve over time after allowing for the various expenses and benefits arising that will be met from HBUK Section assets in the coming years.

The terms available for the cost of buying-out benefits with an insurance company can vary considerably at any time dependent on a number of factors including scheme size, market capacity, as well as insurer pricing and/or appetite to transact. As an illustration, it would not be unreasonable to see 10% or more fluctuations in market pricing relative to gilt markets. Thus, fluctuations of this nature could lead to solvency coverage at the valuation date of perhaps between (or even beyond) 104% to 127%.

Subject to these fluctuations in market pricing, the chart in the LRFM section below, provides an illustration of the likely scale of improvement in the solvency funding level over time.

Low-Risk Funding Measure (LRFM)

Construction

The Trustee also monitors the funding position of the HBUK Section by reference to a 'Low-Risk Funding Measure' ("LRFM") and the Bank and Trustee have agreed to adopt the LRFM to help inform the management of that Section now that there is a comfortable surplus by reference to the technical provisions measure. Further details of the protections for the LRFM funding position are set out in the Statement of Funding Principles and the Schedule of Contributions dated 25 March 2024.

The LRFM is the amount of assets which has a high likelihood of being sufficient to meet members' benefits as they fall due without having any recourse to the Bank. It is constructed from the best estimate projected benefit cashflows, excluding any allowance for future increases in employed members' salaries, discounted at the best estimate of the expected return on the HBUK Section's assets, expressed as the yield on gilts plus a margin. To this is added reserves for the known main costs and unhedged risks of the HBUK Section, including DB and DC expenses, an allowance for additional credit defaults and downgrades, above those reflected in the best estimate return, the RPI/CPI gap and mortality. In addition, a reserve is added in relation to unknown or other miscellaneous residual risks (the "residual risk reserve"). The assumptions used to calculate the LRFM, as specified in the Statement of Funding Principles dated 25 March 2024, are shown in the Appendix to this report.

LRFM Funding position at 31 December 2022

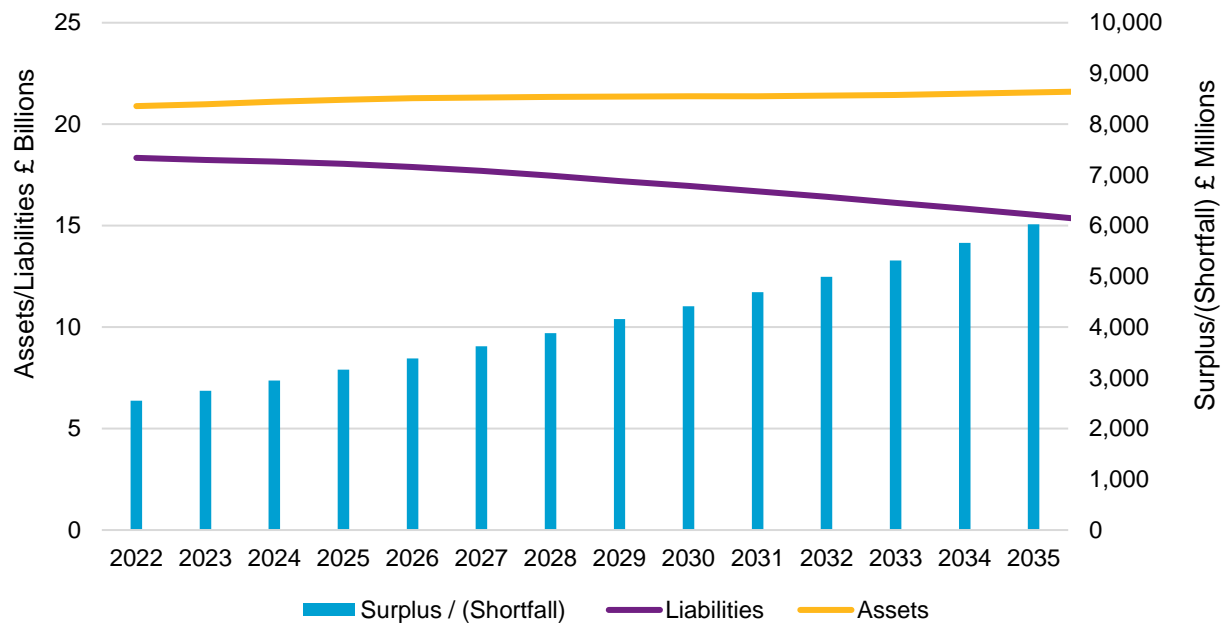
	31 December 2022
	£m
Base liability figure (based on best estimate cashflows) including GMP equalisation reserve	16,120
LRFM Reserves	2,160
Low Risk Funding Measure	18,280
DB assets	20,890
Low Risk Funding Measure surplus	2,610
Low Risk Funding Measure DB funding level (DB assets ÷ LRFM)	114%

The LRFM funding position shown in the table above is illustrated after the transfer back post valuation event described earlier in this report. Members' accumulated Defined Contribution balances are excluded from both the assets and the liabilities.

Projections and sensitivities

We have set out below a projection of the funding level calculated by reference to the LRFM. This assumes that, from 31 December 2022, death-in-service benefits and early retirement costs (together totalling an assumed £25m pa, close to the recent levels, and for which no allowance is included in the best estimate projected benefit cashflows used to derive the LRFM or technical provisions) are met from the general assets of this Section in line with the policy set out in the Schedule of Contributions dated 25 March 2024, along with investment expenses and the expenses of administration and management (including DC annual management charges).

The projected surplus in nominal terms as at end 2029 (i.e. to the calendar year end following the expiry of the Schedule of Contributions) is £4.2bn. To illustrate the headroom for costs to be supported by the LRFM surplus, the costs described above (that are in excess of the DB investment management expenses) would need to exceed some £560m pa before the projected surplus as at end 2029 would be expected to fall below zero. Both of these projections assume that the investment return (before deducting an allowance for investment management costs) on the HBUK Section's DB assets will be 91bps pa above the yield on a matched portfolio of gilts and that the reserves can be released as best estimate experience emerges.



Additional information

Risks

The table below summarises the main risks to the financial position of the HBUK Section and the actions taken to manage them:

Risk	Approach taken to risk
Employer unable to pay contributions or make good deficits in the future	<p>The HBUK Section already provides a high degree of security for members' benefits by virtue of its funding position and closely-matched investment strategy.</p> <p>Between valuations the Trustee monitors the Employer's financial strength regularly.</p> <p>This assessment is taken into account when determining the funding required at each valuation and in considering the appropriateness of the investment strategy.</p> <p>At each valuation the Trustee takes advice from an independent specialist on the ability of the Employer to pay contributions to the HBUK Section and, in particular, to make good any shortfall that may arise if the experience of the HBUK Section is adverse.</p> <p>The Scheme's Rules include provision for support to be provided to the HBUK Section by HSBC Holdings plc in certain circumstances where employers do not pay what is due to the Scheme.</p>
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	<p>The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the HBUK Section's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the HBUK Section DB assets.</p> <p>The Trustee is able to agree further contributions with the Employer at subsequent valuations if future returns prove insufficient and should the funding position and other circumstances suggest that contributions are required.</p>
Investment returns on future income could be lower than the returns available at the valuation date	<p>The Trustee takes this risk into account when determining the HBUK Section's technical provisions, by incorporating a level of prudence into the investment return assumptions.</p> <p>The HBUK Section currently hedges its exposure to changes in interest rates.</p>
Price inflation could be different from that assumed which could result in higher liabilities	<p>The HBUK Section currently hedges its exposure to inflation risk.</p>
Falls in asset values might not be matched by similar falls in the value of the liabilities	<p>The Trustee considers this risk when determining the HBUK Section's investment strategy. It consults with the Employer in order to understand the Employer's appetite for bearing this risk and takes advice on the Employer's ability to make good any shortfall that may arise.</p> <p>To the extent that such falls in asset values result in deficits (on a technical provisions basis) at future valuations, the Employers would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.</p> <p>The HBUK Section currently manages part of this risk by hedging a significant portion of its exposure to interest and inflation rate changes.</p>
Members live longer than assumed	<p>The Trustee currently manages part of this risk by hedging a significant portion of its exposure to longevity.</p> <p>For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as best estimates of the life expectancy of members, and then added a prudent margin to the liabilities for uninsured members' benefits, so that higher reserves are targeted in respect of the uninsured risk than are expected to be necessary.</p>
Options exercised by members could lead to increases in the liabilities	<p>The Trustee sets the terms, where it has the power to do so, for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the HBUK Section's finances as far as is reasonably possible without disadvantaging members.</p> <p>The terms are kept under regular review, generally following each actuarial valuation.</p>
Legislative changes could lead to increases in the liabilities	<p>The Trustee takes legal and actuarial advice on changes in legislation and consults with the Employer, where relevant.</p>

Risk	Approach taken to risk
Changing patterns of weather, temperature or disease could adversely affect the funding of the HBUK Section	The Trustee recognises that climate-related issues represent a material risk to future economic stability in the long term, with potentially wide-ranging impacts on environmental, societal and governance matters. From the perspective of the funding of the HBUK Section, the key ways these risks could manifest themselves are through unmatched falls in asset values, members living longer than assumed or a reduction in the strength of the Principal Employer covenant. Each of these particular risks are addressed separately above.

Economic risk

Demographic risk

Legal risk

Climate risk

Benefits summary

The HSBC Bank (UK) Pension Scheme is a registered pension scheme under the Finance Act 2004. Before the Scheme was segregated, it was contracted-out of the State Second Pension, although it ceased to be contracted out from 30 June 2015, when the Scheme closed to future accrual.

When the Scheme was closed to future accrual, salary linkage was maintained for active members and members are paid a pension equal to the higher of their pension as if they became a deferred member at 30 June 2015 revalued in line with statutory provisions (“the underpin pension”), or the pension calculated using pensionable service to 30 June 2015 and their final pensionable salary as at their date of leaving (“the salaried pension”). It is expected that, for most members, the salaried pension will be at least as large as the underpin pension.

Sectionalisation

The Scheme was segregated into two sections with effect from 30 September 2015: “the HSBC Bank Section” and “the HSBC Global Services Section”. The Scheme was segregated further with effect from 1 July 2018 to create an additional Section known as “the HSBC Bank plc Section”, with the HSBC Bank Section renamed as the HBUK Section. The terms on which the Scheme was further segregated are set out in the 58th Deed of Variation (“Deed of Amendment, Admission and Agreement”, dated 3 April 2018 or the “Second Segregation Deed”).

The liabilities attributable to the HSBC Global Services Section comprise:

- the individual Defined Contribution (“DC”) accounts for DC members who are in the service of a participating employer in the HSBC Global Services Section;
- for hybrid members in the service of a participating employer in the HSBC Global Services Section, the liability to provide benefits in excess of the member’s underpin pension, including associated death benefits; and
- the liability to provide benefits of a defined benefit nature in respect of DC members who die whilst in the service of a participating employer in the HSBC Global Services Section.

The liabilities attributable to the HSBC Bank plc Section comprise:

- the individual Defined Contribution (“DC”) accounts for DC members who are in the service of a participating employer in the HSBC Bank plc Section;
- for hybrid members in the service of a participating employer in the HSBC Bank plc Section, the liability to provide benefits in excess of the member’s underpin pension, including associated death benefits; and
- the liability to provide benefits of a defined benefit nature in respect of DC members who die whilst in the service of a participating employer in the HSBC Bank plc Section.

The liabilities of the HBUK Section comprise all the liabilities of the Scheme other than those attributable to the HSBC Global Services Section or the HSBC Bank plc Section.

Summaries of the aggregate benefits provided from each of the sections of the Scheme can be found on the HSBC Future Focus website, the address of which is given below:

www.futurefocus.staff.hsbc.co.uk

The details of the benefits modelled for this valuation have been discussed with the Trustee separately.

Discretionary benefits

Section 5 of the Statement of Funding Principles dated 25 March 2024 sets out the treatment of the material discretions in this valuation.

Historically, guaranteed pension increases (with the exception of statutory Post-88 GMP increases) have been calculated based on inflation for the year to the previous October. With effect from the 1 January 2023 pension increase, the Trustee (on request from the Bank) changed the reference month for all guaranteed pension increases to September. This change also extends to all future scheme-specific revaluation; namely guaranteed SEA/SEP increases and Samuel Montagu-style guaranteed revaluation. The 2022 valuation reflects this change in reference month for future “1 January” increases from 2023.

Changes to the benefits

Since the valuation as at 31 December 2019 there have been no material changes to the benefits provided from the HBUK Section of the Scheme.

Membership data

Defined benefits

A summary of the data provided for this and the previous valuation is presented below. Information is allocated to the relevant Section of the Scheme applying prior to a member transferring back, for those transfers transacted in June 2023.

Number of members

Number	31 December 2022			31 December 2019		
	Males	Females	Total	Males	Females	Total
Employed members						
▪ HBUK	566	1,498	2,064	808	2,212	3,020
▪ Global Services	453	309	762	852	688	1,540
▪ Bank plc	61	52	113	119	85	204
Deferred pensioners						
▪ HBUK	9,480	18,140	27,620	11,847	23,680	35,527
▪ Global Services	16	6	22	35	20	55
▪ Bank plc	1	6	7	7	8	15
Pensioners						
▪ HBUK	17,458	31,452	48,910	17,028	27,316	44,344
▪ Global Services	37	26	63	97	88	185
▪ Bank plc	9	1	10	13	5	18
Dependants						
▪ HBUK	1,648	4,686	6,334	1,417	4,593	6,010
▪ Global Services	-	-	-	1	5	6
▪ Bank plc	-	-	-	-	-	-
Children						
▪ HBUK	106	111	217	97	104	201
▪ Global Services	-	-	-	1	2	3
▪ Bank plc	-	-	-	-	-	-
Total – HBUK	29,258	55,887	85,145	31,197	57,905	89,102
Total – Global Services	506	341	847	986	803	1,789
Total – Bank plc	71	59	130	139	98	237
Total members with HBUK Section liabilities	29,835	56,287	86,122	32,322	58,806	91,128

Notes on data tables:

- Amounts and averages shown in respect of Global Service and Bank plc Section members reflect the underpin pension benefits for these members. The dependant and child figures relate only to members with an underpin.
- Figures in respect of deferred members exclude members entitled only to Equivalent Pension Benefits.
- Deferred pension amounts include revaluation to the valuation date.
- Average ages are weighted by salary or pension amount.

Annual salary or pension

£m	31 December 2022			31 December 2019		
	Males	Females	Total	Males	Females	Total
Pensionable salaries						
▪ HBUK employed members	30.9	44.1	75.0	42.0	58.4	100.4
Underpin deferred pension						
▪ Global Services employed members						
▪ Bank plc employed members	13.3	6.6	19.9	22.5	12.3	34.8
	2.1	1.0	3.1	4.2	1.7	5.9
Deferred pensions						
▪ HBUK	61.4		139.2	80.3		176.1
▪ Global Services	0.4	77.8	0.5	1.0	95.8	1.4
▪ Bank plc	0.02	0.10	0.12	0.3	0.1	0.4
Pensioners' pensions						
▪ HBUK	398.0	213.5	611.5	355.7	168.2	523.8
▪ Global Services	1.1	0.6	1.7	2.6	1.4	4.0
▪ Bank plc	0.30	0.01	0.31	0.5	0.1	0.6
Dependants' pensions						
▪ HBUK	8.8	70.1	78.9	6.5	60.3	66.7
▪ Global Services	-	-	-	0.01	0.07	0.08
▪ Bank plc	-	-	-	-	-	-
Children's pensions						
▪ HBUK		0.6		0.4	0.5	0.9
▪ Global Services	0.7	-	1.3	0.00	0.01	0.01
▪ Bank plc	-	-	-	-	-	-

Average age

Years	31 December 2022			31 December 2019		
	Males	Females	All	Males	Females	All
Active members						
▪ HBUK	54.7	54.7	54.7	53.3	53.1	53.2
▪ Global Services	54.6	54.6	54.6	52.9	52.6	52.8
▪ Bank plc	54.0	54.0	54.0	52.2	53.0	52.5
Deferred pensioners						
▪ HBUK	55.9	55.4	55.6	54.4	53.8	54.1
▪ Global Services	56.5	53.9	56.1	53.9	52.3	53.4
▪ Bank plc	49.0	55.9	54.6	51.8	52.6	52.0
Pensioners						
▪ HBUK	72.8	67.9	71.1	71.8	66.8	70.2
▪ Global Services	57.3	56.3	56.9	57.7	57.2	57.5
▪ Bank plc	58.5	51.0	58.3	56.6	61.9	58.0
Dependants						
▪ HBUK	68.6	79.8	78.6	66.6	79.6	78.3
▪ Global Services	-	-	-	59.0	55.4	55.7
▪ Bank plc	-	-	-	-	-	-
Children						
▪ HBUK	16.7	16.8	16.7	14.4	16.5	15.5
▪ Global Services	-	-	-	21.0	20.0	20.2
▪ Bank plc	-	-	-	-	-	-

Asset information

Movements in the market value of the HBUK Section's defined benefit assets

The audited accounts supplied as at 31 December 2022 show that the market value of the HBUK Section's DB assets was £20,871 million.

The change in the HBUK Section's assets from £28,664 million as at 31 December 2019 to £20,871 million as at 31 December 2022 is detailed in the Trustee's Report and Financial Statements over that period. The table below summarises a broad reconciliation of the change (including AVCs):

	£m	£m
Defined benefit assets at 31 December 2019		28,664
Contributions paid:		424
- Company's normal contributions	42	
- Company's early retirement strain contributions	62	
- General framework contributions	320	
Net transfers between Sections and benefit types:		293
- Net Individual transfers between Sections	50	
- Net Group Transfers from the Global Services and Bank plc Sections	243	
Benefits paid:		(2,907)
- Pension payments	(1,883)	
- Lump sums at retirement	(241)	
- Individual transfers out (CETVs)	(768)	
- LTA and AA tax charges	(11)	
- Other benefits	(4)	
Administration Expenses		(52)
PPF levies		(3)
Investment dealings:		(5,548)
- Investment income (including net payments on longevity insurance)	1,417	
- Investment management fees (DB and DC)	(80)	
- Change in market value of investments	(6,685)	
Defined benefit assets at 31 December 2022		20,871

Movements in the market value of the HBUK Section's defined contribution assets

The audited accounts supplied as at 31 December 2022 show that the market value of the HBUK Section's defined contribution assets was £3,006 million.

The change in the HBUK Section's defined contribution assets from £2,400 million as at 31 December 2019 to £3,006 million as at 31 December 2022 is detailed in the Trustee's Report and Financial Statements over that period. The table below summarises a broad reconciliation of the change:

	£m	£m
Defined contribution assets at 31 December 2019		2,400
Contributions paid:		417
- Employers' contributions	295	
- Members' contributions	103	
- Transfers-in	19	
Expenditure:		(301)
- Benefits payable	(84)	
- Individual transfers out to other schemes	(217)	
Net transfers between Sections of the Scheme (Group or Individual)		187
Investment dealings:		303
- Change in market value	303	
Defined contribution assets at 31 December 2022		3,006

Investment strategy

The DB assets, excluding AVCs, were invested as summarised below as at 31 December 2022 and 31 December 2019:

	Market value as at 31 December 2022		Market value as at 31 December 2019	
	£m	%	£m	%
Index-linked Securities	7,877	37.7%	12,040	42.0%
Fixed Interest Securities	5,100	24.4%	12,732	44.4%
Bond Funds within DB Pooled Investments	5,396	25.9%	-	0.0%
UK and Overseas Equity	-	0.0%	3	0.0%
Derivative Contracts	998	4.8%	1,594	5.6%
Property	979	4.7%	859	3.0%
Private Equity	383	1.8%	778	2.7%
Cash, Cash equivalents and Liquidity Funds	99	0.5%	538	1.9%
Net Current Assets	35	0.2%	116	0.4%
AVCs	4	0.0%	4	0.0%
Total	20,871	100.0%	28,664	100.0%

Assets related to Defined Contribution members	Market value as at 31 December 2022		Market value as at 31 December 2019	
	£m	%	£m	%
Retirement account balances	2,995	99.6%	2,388	99.5%
Net current assets	11	0.4%	12	0.5%
Total	3,006	100.00%	2,400	100.00%

A more detailed description of the actual investment strategy adopted appears in the Statement of Investment Principles.

The investment returns assumed for the calculation of the element of the technical provisions relating to the defined benefits are based on a notional asset allocation that is expected to deliver returns of around 91bps pa in excess of gilts on a median basis as at the valuation date, before investment management expenses. A more prudent return of 70bps pa in excess of gilts (net of investment expenses) is assumed in the actual calculation of the technical provisions. The Trustee assumes that for the purpose of planning to meet the statutory funding objective there will be no change to this investment return during the lifetime of this Section of the Scheme.

Approximate analysis of the change in funding position

The main factors contributing to the change in surplus between 31 December 2019 and 31 December 2022 (after allowing for post-31 December 2022 valuation date events) are set out below:

Financial position at previous valuation after allowing for post- 31 December 2019 valuation date events	Surplus of £2,490 m
Interest on surplus/deficit	£100 m
Investment conditions: <ul style="list-style-type: none"> Nominal return achieved on assets (net of investment expenses) relative to 2019 assumption (6,430) CPI inflation impact on salaries being higher than expected (120) Inflation impact on deferred pension revaluation and on pension increases in payment being higher than expected (740) Change in gilt yields and inflation curves 7,420 	£220 m
General Framework contributions	£330 m
Other experience: <ul style="list-style-type: none"> Withdrawals, early retirements from employment, and expenses as anticipated (allowing for 2019 expense reserve provisions) - Cost of death benefits for DC members lower than anticipated 10 Commutation impact (10) Transfer out experience – CETVs on less prudent assumptions than anticipated 70 2020-2022 salary growth higher than expected (10) 2023 salary growth lower than expected 30 Post-retirement mortality experience – more member deaths than expected 10 Proportion married experience - fewer dependants' benefits payable than expected 20 	£120 m
Other: <ul style="list-style-type: none"> Change in reference month for pension increases (in deferment and in payment increases, and salary escalation) £(50) m Additional data being available this valuation for DC dependants to refine their liability calculations (e.g. on pension increase type) £10 m Gain in respect of longevity hedge (including data corrections) £140 m Updates to assumptions to reflect best estimate basis on 2022 valuation data £120 m 	
Miscellaneous/untraced	£170 m
Financial position at current valuation	Surplus of £3,650 m

HSBC Bank (UK) Pension Scheme - HBUK Section

Summary of assumptions adopted for the actuarial investigation as at 31 December 2022

	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Price inflation (RPI)	In line with gilt market terms	As for Technical Provisions	As for Technical Provisions
Price inflation (CPI)	A term dependent gap of 1.5% pa below RPI to end 2025, 1.0% pa below RPI between end 2025 and 2030, and in line with RPI thereafter.	As for Technical Provisions, but a reserve is established equivalent to the difference in value from assuming CPI will be in line with RPI throughout.	A term dependent gap of 0.7% pa below RPI to end 2030, and in line with RPI thereafter.
Investment returns/discount rate	<p>0.7% pa above the yield on a broadly-matched portfolio of gilts of appropriate nature and with a similar duration as at 31 December 2022 for defined benefit liabilities.</p> <p>These returns are assumed to be net of investment expenses.</p>	<p>0.91% pa above the yield on a broadly-matched portfolio of gilts of appropriate nature and with a similar duration as at 31 December 2022 for defined benefit liabilities, net of an allowance for reasonable default and downgrade costs.</p> <p>This return is assumed to be gross of investment expenses.</p> <p>A reserve is established to make provision for investment management expenses by considering the impact of a 0.1% pa reduction in the discount rate.</p> <p>A further reserve is established to make provision for extraordinary default and downgrade costs equivalent to a 0.15% pa reduction in the 91bps pa discount rate.</p>	<p><i>Post-retirement discount rate:</i> 0.25% pa above the yield on a broadly-matched portfolio of gilts of appropriate nature and with a similar duration as at 31 December 2022 for defined benefit liabilities. A further 0.35% pa to be added for those members covered by the longevity hedge.</p> <p><i>Pre-retirement discount rate:</i> A rate such that when coupled with the post-retirement discount rate above, leads to a value for non-pensioner liabilities equivalent to that assessed using a discount rate of gilts less 0.15% pa overall.</p>

	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Pension increases			
Inflationary increases	In line with gilt market pricing of full RPI or CPI inflation, taking into account the relevant floor and cap and reflecting volatility of inflation	As for Technical Provisions	Consistent with approach for Technical Provisions (noting difference in CPI assumption)
Fixed increases	In line with guaranteed fixed rate (e.g. 0% or 3%)	As for Technical Provisions	As for Technical Provisions
SEA revaluation	In line with pension increases	As for Technical Provisions	As for Technical Provisions
Increases in Section 148 orders	1% pa above CPI price inflation	As for Technical Provisions	Consistent with approach for Technical Provisions (noting difference in CPI assumption)

	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Base Mortality	<p>The assumptions for mortality depend on the level of the member's deferred pension, accrued pension or pension in payment as at 1 January 2023, including pension increases, salary increases and statutory revaluation orders which apply, or would have been applied up to and including that date. The post-retirement mortality assumption adopted for the calculation of all measures is based on an unweighted average of the mortality experienced by the whole Scheme's pensioners and dependants over the three years to 31 December 2019 (as a proxy for the six-year period ending 31 December 2022, but excluding the final 3 years which would have been affected by the covid pandemic).</p>		
Male pensioners			
<£27,900 pa	112% SAPS S3 All pensioner Male amounts table	As for Technical Provisions	As for Technical Provisions
≥£27,900 pa	97% SAPS S3 Normal health pensioner Male amounts table	As for Technical Provisions	As for Technical Provisions
Female pensioners			
All members	97% SAPS S3 Normal health pensioner Female amounts heavy table	As for Technical Provisions	As for Technical Provisions
Female dependants			
All members	97% SAPS S3 All pensioner Female amounts light table	As for Technical Provisions	As for Technical Provisions
Male dependants			
All members	100% SAPS S3 Ill health pensioner Male amounts table	As for Technical Provisions	As for Technical Provisions

	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Allowance for future improvements in mortality	In line with the 'CMI Mortality Projections Model (2022 version)', subject to a long-term annual improvement rate of 1.5%, an initial addition of 0.5% a smoothing parameter of 7.5, and weightings to 2020, 2021 and 2022 experience of 0%, 0% and 25% respectively.	As for Technical Provisions	As for Technical Provisions
Additional reserves for prudence in the mortality assumption	1.25% of best estimate liabilities for pensioners and dependants who had retired prior to the on-risk date of the longevity hedge but who are not covered by that hedge and 2.25% of best estimate liabilities for all other non-hedged members	<p>Additional reserves are established as follows. These are expressed as a percentage of liabilities calculated on the best estimated assumptions set out in this column, before addition of the stated reserves:</p> <ul style="list-style-type: none"> ▪ <i>Longevity pricing reserve</i> (for pensioners who had retired prior to the on-risk date of the longevity hedge but who are not covered by that hedge): 2.5% ▪ <i>Longevity pricing reserve</i> (for new pensioners and all deferreds): 4.5% ▪ <i>Longevity implementation reserve</i> (for pensioners who had retired prior to the on-risk date of the longevity hedge but who are not covered by that hedge): 1% ▪ <i>Longevity implementation reserve</i> (for new pensioners): 1% ▪ <i>Additional longevity implementation reserve</i> (for non-pensioners, assuming that the hedge is implemented at the assessment date rather than awaiting retirement): 2.5% 	n/a
In service mortality	In line with post-retirement mortality	n/a	n/a

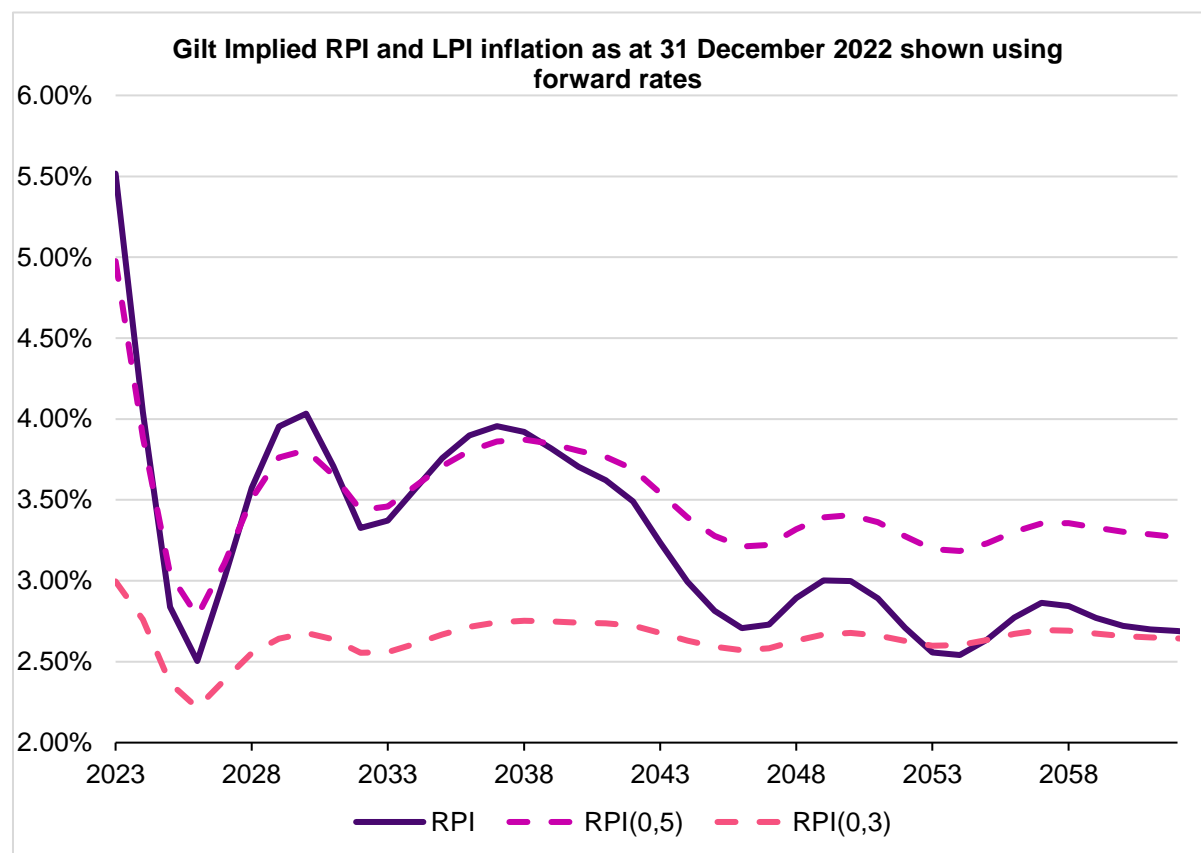
	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Salary increases	<p>0.75% pa above CPI price inflation from 2024 (allowance for salary growth up to and including March 2023 having been included in the data provided).</p> <p>Salaries are subject to an assumed maximum of £300,000 pa.</p> <p>The liability calculation will assume that salary increases are awarded on each 1 March, reflecting inflation to the previous September.</p>	Members are assumed to leave service as at the date of the assessment.	Members are assumed to leave service as at the date of the assessment.
Increases in Scheme earnings cap	In line with CPI price inflation	n/a	n/a
Increases in lower and upper earnings limits	In line with CPI price inflation	n/a	n/a
Early Retirement			
- voluntary	<p>Employed members are assumed to opt for voluntary early retirement at a rate of 5% pa from age 50 to age 54 and at a rate of 15% pa at each age above 54 (with all those projected to remain in service at NPA assumed to retire at that age)</p> <p>For both employed members and deferred members, benefits in respect of non-contributory and contributory service from 1 April 2010 are assumed to be paid at age 60 and subject to an early retirement reduction of 4% pa simple (or cost-neutral reduction, if expected to result in a higher benefit).</p>	n/a	n/a
		As for Technical Provisions, for deferred members.	As for Technical Provisions, for deferred members.
- ill health	No allowance made	n/a	n/a

	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Withdrawal (i.e. the rate of active members leaving service with deferred benefits)	Members withdraw from service prior to NPA at a rate of 5% pa	n/a	n/a
Commutation	No allowance made, reflecting a simplifying assumption that, where taken, commutation terms will be broadly cost-neutral over time with the value of the pension given up based on the assumptions used to determine the technical provisions. Actual terms will differ due to the timing of changes and differences between the calculation approaches.	No allowance made, as for Technical Provisions	No allowance made, as for Technical Provisions
Allowance for members to take transfer values	No allowance made	No allowance made	No allowance made
Proportion of deaths that give rise to spouse, civil partner or dependant benefits	90% for men, 70% for women at retirement, reducing as spouses predecease members, assumed to give rise to a dependant of the opposite sex	As for Technical Provisions	As for Technical Provisions
Age difference between members and their dependants	Males assumed to be 3 years older than female partners	As for Technical Provisions	As for Technical Provisions

	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Expenses	<p>A 2.3% loading, equivalent to the current level of defined benefit administrative expenses expressed as a percentage of benefit cashflows, is applied to the projected benefit cashflows to make provision for the amounts expected to be paid from the HBUK Section in respect of the expenses of administering defined benefit entitlements.</p> <p>In addition, a reserve of £60m is established in the technical provisions in respect of defined contribution administration expenses and annual management charges on defined contribution balances for the period covered by the Schedule of Contributions.</p>	<p>For defined benefit administrative expenses, a reserve is established as for the Technical Provisions of 2.3% of best estimate liabilities.</p> <p>In addition, a reserve is established in respect of defined contribution administration expenses and annual management charges on defined contribution balances for a 20-year period. These expenses are assumed to:</p> <ul style="list-style-type: none"> ■ start from current levels (some £10m pa) ■ remain proportional to DC fund values with investment returns of gilts plus 1% pa ■ reduce evenly over a 40-year period from the valuation date ■ cease after 20 years on the basis that the then remaining DC benefits will be secured with a third party and expense payments will cease. 	<p>A reserve of £100m is included to make provision for the expenses of winding up the HBUK Section plus a further £100m to make provision for asset transition costs.</p> <p>A 1% loading is also added to make provision for the costs of residual risks insurance cover.</p>
Costs of GMP equalisation	A reserve of 1% of the liabilities is included to make provision for the liability to equalise benefits between men and women for the unequal effects of GMP	As for Technical Provisions	As for Technical Provisions
Residual Risk Reserve	n/a	A reserve of 2% of the best estimate liability plus reserves is established, to make provision for risks not covered elsewhere in the calculation.	n/a

Each reserve established within the Low-Risk Funding Measure (other than the residual risk reserve) is calculated independently of the other reserves and is added to the base best estimate liability with no allowance for compounding.

The chart below shows the forward rate assumptions for the main inflation-linked pension increases as described above as at 31 December 2022. For example, the rates for '2023' show the increases implied by the gilt markets as at 31 December 2022 for the increases applicable over the calendar year 2023 (and which will be expected to apply as at 1 January 2024). The chart also shows the market implied rates for future increases in the Retail Prices Index.



These increases have been derived from the gilt market implied RPI curve, using the Black Model and the following volatility assumptions. In order to derive consistent LPI assumptions for different caps and floors, linear interpolation is applied from the rates at 0%, 3% and 5%. The approach used for CPI based capped and floored rates is to set these by reference to market implied RPI volatility rates but scaled down to reflect an assumed long-term expected volatility of CPI of 80% of that implied for RPI.

Year	Volatility assumption as at 31 December 2022		
	Market implied at floor of 0%	Market implied at cap of 3%	Market implied at cap of 5%
1	2.47%	1.86%	1.47%
5	3.08%	2.16%	1.87%
10	3.51%	2.29%	1.99%
15	4.04%	2.50%	2.13%
20	4.33%	2.53%	2.17%
30	4.70%	2.60%	2.56%
40	5.12%	2.91%	3.02%
50	6.18%	3.77%	3.15%

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme and name of section: **HBUK Section of the HSBC Bank (UK) Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the section's technical provisions as at 31 December 2022 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the section and set out in the Statement of Funding Principles dated 25 March 2024.



C G Singer
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company

25 March 2024

Towers Watson Limited
Watson House
London Road
Reigate
Surrey, RH2 9PQ

Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The Trustee's assessment of the employer's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Principal Employer: For the purpose of this report, we are referring to the employer performing the role of the "Bank" under the Rules of the Scheme

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the Trustee and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the Trustee to perform certain statutory duties for the Scheme.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Secondary funding target: The secondary funding target is a stronger target than the statutory funding objective, and one to which the Trustee aspire over the longer term. Once 100% funding on the technical provisions basis is reached, the secondary funding target may be expected to be achieved by a combination of investment returns and contributions.

Statement of Funding Principles (SFP): The SFP sets out the Trustee' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The Trustee is responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the Trustee' policy for investing the Scheme's assets. The Trustee is responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Scheme (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.