HSBC Bank (UK) Pension Scheme
HBUK Section

Statement of Funding Principles

25 March 2024

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Section 1: Introduction

1.1 This Statement of Funding Principles has been prepared by HSBC Bank Pension Trust (UK) Limited ("the Trustee"), the corporate Trustee of the HSBC Bank (UK) Pension Scheme ("the Scheme").

1.2 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").

1.3 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.

1.4 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.

1.5 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.

1.6 This statement applies to the HBUK Section of the Scheme and replaces that dated 22 December 2020. The contents of this Statement have been agreed between the Trustee and HSBC UK Bank plc, acting on behalf of all the employers participating in this Section.

1.7 This statement sets out, as required under the Pensions Act 2004, the Trustee's policy for securing that the statutory funding objective for the HBUK Section of the Scheme is met, the decisions of the Trustee relating to the principles used in determining the technical provisions underlying that objective as at 31 December 2022 and the period within which any failure to meet the statutory funding objective is to be remedied. It also contains other information required under the Act.

1.8 The Trustee and HSBC UK Bank plc have agreed an approach to risk management for the HBUK Section of the Scheme and this statement also records the aspects of this approach which have been agreed between the Trustee and HSBC UK Bank plc.

1.9 In this document, “funding plan” refers to the principles set out in this document and the contributions agreed in the light of those principles, including the contributions set out in the agreed Schedule of Contributions.

1.10 This statement was last revised on 25 March 2024.

1.11 Separate funding principles have been adopted in respect of the HSBC Global Services and HSBC Bank plc sections of the Scheme.

Section 2: Statutory Funding Objective

2.1 The statutory funding objective is that the HBUK Section of the Scheme should hold sufficient and appropriate assets to cover its technical provisions. Technical provisions mean the amount required, on an actuarial calculation, to make provision for the liabilities of this Section of the Scheme. 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 this Statement. For hybrid members of the HSBC Global Services Section and the HSBC Bank plc Section the defined benefits taken into account in the 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.

Section 3: Process for agreeing assumptions

3.1 At each actuarial investigation, the Scheme Actuary will prepare projections on a range of possible assumptions consistent with the principles in this statement and will discuss the results of these calculations with the Trustee.

3.2 The Trustee will consult with the employer performing the role of the “bank” (HSBC UK Bank plc or “the bank”) with a view to reaching common agreement on the funding policy and principles to be adopted and on the assumptions on which the statutory funding objective should be determined.

3.3 The Trustee and the bank acknowledge that any change to the method or assumptions used on the last occasion on which the Scheme’s technical provisions were calculated must be justified by a change of legal, demographic or economic circumstances. It is also acknowledged that those assumption changes may become more or less material to the Scheme’s funding plan than as at a previous valuation. Therefore the Trustee and the bank agree that it is appropriate to review all assumptions at each valuation to ensure their continuing applicability (or otherwise). This could either increase or decrease the technical provisions and/or other funding measures.

Section 4: Agreed funding principles

4.1 This section sets out the decisions made by the Trustee as to the methods and assumptions used in calculating the technical provisions for this Section of the Scheme, and the period within which, and the manner in which, any failure to meet the statutory funding objective is to be remedied.

General

4.2 In choosing the methods and assumptions to be adopted for the calculation of the technical provisions (and in determining any recovery plan that aims to remedy any shortfall relative to the technical provisions)

- the Trustee acknowledges that it has to strike a balance between the interests of the members of this Section of the Scheme (and their dependants) on the one hand, and the interests of the participating employers on the other
- the Trustee will assume in calculating the technical provisions that the participating employers continue indefinitely to be able to pay the contributions required and do not become insolvent. The possibility of the participating employers' insolvency is covered in the section headed "Solvency".
- the Trustee may assume that part of the expected investment premium available from asset classes other than UK Government Bonds (or gilts) can be captured and may hold investments in other asset classes. It acknowledges in doing so that the additional return expected from these other assets is not guaranteed and that it may be necessary to request further contributions following future actuarial investigations if investment returns are below the level assumed.

Mortality

4.3 The Trustee recognises the difficulty in projecting the likely levels of mortality experienced by members of this Section of the Scheme in future. The Trustee will consider recent trends and analysis in reaching its conclusion as to the allowance for mortality it considers prudent at the time of each actuarial investigation.

4.4 Where the Trustee holds insurance contracts to mitigate the mortality risk within this Section of the Scheme, the calculation of the technical provisions will reflect the terms of such contracts for those benefits covered by them.

Investment return

4.5 The Trustee will consider what a realistic allowance might be for future investment returns on the different asset classes in which the Trustee is likely to invest and will base the assumptions used to determine the technical provisions on lower returns. The Trustee will consider the margin of prudence being taken by considering, at each actuarial investigation, the likely spread of investment return outcomes in future.

Period within which, and manner in which, any failure to meet the statutory funding objective is to be remedied

4.6 If the assets are not sufficient to cover the technical provisions, then the participating employers will pay additional contributions so that the projections (on the assumptions to be adopted for any recovery plan required) indicate that this Section of the Scheme will satisfy the objective within a period ("the recovery period") agreed with the employer performing the role of the bank.

4.7 The contributions payable will have regard to the size of the funding shortfall, the affordability of contributions by the participating employers, the Trustee's assessment of the financial covenant of the participating employers, and any contingent security offered from time to time by the participating employers. In determining the contribution expected to be payable, the Trustee may, amongst other options, allow for more optimistic investment returns over part or all of the recovery period than those underlying the technical provisions.

4.8 The recovery period will not normally exceed 10 years.

Risk management

4.9 HSBC UK Bank plc and the Trustee have agreed a risk management approach under which, subject to statutory requirements and the Trustee's assessment of the sponsor covenant, the Trustee and HSBC UK Bank plc will manage this Section of the Scheme over the long term. The approach will be reviewed in conjunction with each actuarial investigation and may also be reviewed between each actuarial investigation if both the Trustee and HSBC UK Bank plc agree. The aspects of the risk management approach currently agreed are set out in Section 7.

Transfers to and from the HSBC Global Services Section and HSBC Bank plc Section

4.10 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.

4.11 In addition, 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 Bank plc Section or HSBC Global Services 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 such 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.

4.12 There is a further provision under the Trust Deed and Rules, which permits the Trustee, 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, to transfer assets and liabilities from the HSBC Global Services Section or the HSBC Bank plc Section (as applicable) to the HBUK Section, in respect of the pension death benefits that become payable when a DC member dies in service with an employer participating in the HSBC Global Services Section or HSBC Bank plc Section, such that the whole benefit becomes a liability of (and is paid from) the HBUK Section.

4.13 The current policy adopted for these transfers is set out in a separate document but, broadly speaking, the transfer payment is calculated on a 'past service reserve' approach. To the extent that the amount transferred into the HBUK Section in future falls short of (or the amount transferred out of the Section exceeds) the reserve then held in the HBUK Section in respect of the relevant liability on a technical provisions basis, such funding strains would normally be expected to be addressed as part of the next actuarial investigation for the HBUK Section.

Section 5: Assumptions used for the 2022 technical provisions

5.1 The Trustee has made decisions in the following areas relating to the actuarial investigation as at 31 December 2022.

Funding method

Technical Provisions

5.2 The funding method adopted for the calculation of the technical provisions for this Section of the Scheme will be the Projected Unit Credit Method. Under this method the element of the technical provisions relating to defined benefit members (and for defined contribution members with an annuity in this Section of the Scheme) is calculated as the amount expected to be required to provide the prospective benefits payable arising from service completed up to 30 June 2015 and (where relevant) salary increases up to the effective date of the actuarial investigation, and including allowance for prospective salary increases for hybrid members who retain salary linkage in this section of the Scheme.

Future accrual

5.3 The Scheme closed to future accrual of benefit with effect from 30 June 2015 and thus there is no requirement to calculate an expected cost of ongoing benefit accrual.

Death in service spouse's pensions

5.4 An assessment is made of the amounts expected to be required to provide for benefits payable on death in service in respect of employed members with Defined Contribution benefits (including hybrid members). These amounts reflect the estimated cost of purchasing insurance to provide for the expected capital value of pensions arising from deaths expected over the year following the valuation date. In this Section, such benefits are not covered by insurance. The Trustee and the bank have agreed that the cost of benefits payable on death in service will, subject to the risk management framework set out later in this document, be met from the general assets of this Section of the Scheme but that no separate reserve is required to be included in the technical provisions for these costs for as long as the funding level coverage on the Low Risk Funding Measure (as described in Section 7) exceeds 100%.

Expenses

5.5 The Trustee and the bank have agreed that the annual investment management charges in respect of the HBUK Section's DC funds, and other Trustee DC and DB expenses, will, subject to the risk management framework set out later in this document, be met from the general assets of this Section of the Scheme. Recognising the provisions of the Scheme's Trust Deed and Rules in relation to meeting the various expenses incurred by the Scheme, a reserve is included in the technical provisions as at 31 December 2022 to provide for the expenses of administration based on the assumptions set out in the appendices to this Statement.

Funding DC credits

5.6 The bank may, under DC Rule 6.1 of part 3 of schedule 2 of the Scheme's Trust Deed and Rules, determine that, for a specified period, the accrual of certain credits to individual dcs accounts are to be satisfied either in whole or in part by a credit from the general assets of the Scheme to the relevant member's individual dcs account of the amount otherwise payable. Such a determination is subject to the conditions set out in the Trust Deed, and will be made in accordance with the risk management framework set out in this statement.

Investment strategy

5.7 The investment returns assumed for the calculation of the element of the technical provisions relating to defined benefits for members of the defined benefit section are based on a notional asset allocation that is expected to deliver returns (net of investment management charges) of around 81bps pa in excess of gilts as at the valuation date. A more prudent return of 70bps pa in excess of gilts is assumed in the actual calculation of this element of the technical provisions.

5.8 A more detailed description of the actual investment strategy adopted appears in the Statement of Investment Principles. The Trustee assumes that for the purposes of planning to meet the statutory funding objective there will be no change to this investment strategy during the lifetime of this Section of the Scheme.

5.9 It is assumed that in addition to holding physical assets, the Trustee will maintain a portfolio of interest rate and inflation swaps, so as to match more closely the anticipated receipts from the asset portfolio with the projected benefit payments.

Investment return assumptions underlying the calculation of the technical provisions

5.10 The prudent investment return adopted in the calculation of the technical provisions for the 2022 actuarial investigation is approximately 11bps pa below that expected on a notional portfolio of assets broadly comparable with that held in respect of the HBUK section as at the valuation date. In the light of this, the disclosed surplus, the anticipated ability of the employers to meet any additional funding agreed from time to time (noting also the agreed and documented support of HSBC Holdings plc in the event that such agreed funding is not paid to the HBUK Section by the employers in a timely manner), and the additional risk management processes in place, the Trustee regards the assumptions used as reasonable and prudent.

5.11 The Trustee and the employers recognise that there is a degree of mismatch between the returns expected on the assets and the gilts-based discount rate adopted in the calculation of the technical provisions. Fluctuations in market conditions may mean that asset returns at the level assumed may not materialise in future. There is therefore a risk, albeit small, that the agreed funding plan will prove insufficient and that additional contributions will be required in future.

Mortality

5.12 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 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.

5.13 For benefits not covered by the longevity hedging arrangements, the assumption adopted reflects a best estimate of future mortality, estimated from an unweighted average of the actual mortality rates experienced by members of the whole Scheme, over the three-year period to 31 December 2019 (this period being chosen in the light of a six year period having been adopted as at the 31 December 2019 valuation, but with the experience for 2020 to 2022 being excluded from the average in the light of the effects of Covid 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. The resulting liability values are uplifted by a margin for prudence of 1.25% for the uninsured pensioner benefits as at 31 December 2018 and 2.25% for all other uninsured members.

5.14 This, together with an adjusted allowance for future mortality improvements and explicit allowance for the terms of the longevity insurance contracts entered into, is considered by the Trustee and the employers to be a reasonable basis on which to plan the funding of this Section of the Scheme.

GMP equalisation

5.15 As a result of the Lloyd's ruling in October 2018, there is now an obligation on the Trustee to equalise benefits between men and women to correct for the unequal effects of GMP. The benefits have yet to be rectified and, in light of this, a reserve has been included in anticipation of the costs expected to arise.

Other financial assumptions and demographic assumptions

5.16 The Trustee decided, following discussions held with the Scheme Actuary and the employer performing the role of the bank during the actuarial investigation process, to use the assumptions which are detailed in the Appendix. These assumptions were chosen having regard to the recent experience of this Section of the Scheme and anticipated future trends.

5.17 These other assumptions are the same as those adopted for the 2019 actuarial investigation except for some changes to the assumed relationship between RPI and CPI and a change in the allowance made for commutation (the allowance having been removed on the basis that the value of the pension commuted would, over the long term, provide a reasonable basis on which to fund this benefit having regard to the processes expected to be adopted by the Trustee for the review of the terms offered). All the assumptions are detailed in the Appendix.

Rectification of shortfall relative to the technical provisions

5.18 As stated in Section 4, the period over which it is planned to recover a shortfall should not normally exceed 10 years, and as stated in Section 9, the frequency of review will be at least every three years. For the 2022 actuarial investigation, there is no statutory shortfall for which a recovery plan is needed.

Discretionary Benefits and Member Options

5.19 A description of the treatment under the funding plan of the main discretionary practices followed by the Trustee and the employer performing the role of the bank is set out in the following paragraphs.

Pension increases

5.20 Most pensions under the Scheme are guaranteed to increase in payment in line with inflation (generally RPI) but subject to a cap, generally of 5% pa for benefits accrued before 1 July 2009 and 3% pa for benefits accrued from that date, and a floor, generally of 0% pa. The Trustee has decided that, when calculating the technical provisions, such pension increases will reflect levels of RPI (or CPI) inflation (and their volatility) and the relevant cap or floor to the rate of increase, as detailed in the Appendix.

5.21 Further, for ex Wardley Investment Services members, the commutable part of pensions coming into payment typically receive increases in line with the rest of the non GMP (Guaranteed Minimum Pension) pension which are added to the pension in payment. Allowance for such increases is included in the technical provisions.

Early retirement

5.22 In some cases, the pension payable from the Scheme on early retirement is greater in value than the value of the alternative deferred benefit. When this is the case, the value (of the additional pension paid above the alternative deferred benefit with a standard cost neutral early retirement reduction applied) will be assessed. This value will be calculated as the value of the additional pension assessed using assumptions adopted for this purpose by the Trustee which will include a discount rate calculated consistently with the discount rate that would be adopted for the calculation of the technical provisions for such liabilities based on the latest agreed funding principles for this Section of the Scheme as at the date of retirement. The Trustee and the bank have agreed that the cost of any additional benefits arising on early retirement will, subject to the risk management framework set out later in this document, be met from the general assets of this Section of the Scheme but that no separate reserve is required to be included in the technical provisions for these costs for as long as the funding level coverage on the Low Risk Funding Measure (as described in Section 7) exceeds 100%.

5.23 The element of the technical provisions relating to benefits arising from service as a contributory member or non-contributory member between 1 April 2010 and 30 June 2015 reflects the revised retirement age of 65, and early retirement terms that apply for such service, by assuming (where this results in a benefit of greater value than otherwise) that such members will retire at age 60 with an early retirement reduction of 4% pa simple applying to their pension. Special contributory members are assumed to retire at age 60 with an unreduced pension.

Incapacity

5.24 Prior to 1 July 2015, a db member could retire from active service due to incapacity and be awarded an unreduced pension if the employer considers that certain conditions are met. This involved a cost to this Section of the Scheme but, in the light of the changes to Scheme benefits from 1 July 2015, no additional reserve has been established within the technical provisions to reflect this.

5.25 Incapacity pensions for Defined Contribution Section Members (including Hybrid members) are provided outside the Scheme and so for the purpose of the 2022 actuarial investigation, no allowance is made in the future contribution requirements for such benefits to be awarded.

Increases to deferred pensions

5.26 In the past, the bank has awarded annual discretionary increases to deferred pensions before they come into payment. However, in recent years, such increases have not been awarded where it is recorded that the member did not leave service following redundancy under the Security of Employment Arrangements or Security of Employment Policy. Provision for such increases is included in the funding plan only to the extent that they relate to these redundancy cases.

5.27 A higher level of revaluation than the statutory minimum typically applied to members is applied in deferment on a discretionary basis to the benefits of Samuel Montagu and James Capel members. Full allowance is included in the technical provisions for such increases.

Dependants' pensions

5.28 On the death of a member, the Trustee may decide that an individual qualifies to receive a pension as a Dependant under the rules of the Scheme. It is assumed that, at retirement, 90% of male members and 70% of female members have a spouse, civil partner or eligible adult dependant to whom a dependant's pension may be paid. Further, under some benefit categories, discretionary pensions may be provided to spouses and civil partners who do not automatically qualify for such a benefit following death in deferment. It is assumed that such discretionary pensions are set at the level of either 50% or two thirds of the member's deferred pension, depending on the category of member.

Member options

5.29 The Trustee or the employer performing the role of the bank may allow, or are required to allow, a member to exercise certain options, including;

- converting a member's additional voluntary contribution funds into pension on retirement
- commuting pension for lump sum at retirement
- taking voluntary early or late retirement

The terms on which these conversions occur are generally set at the Trustee's discretion and are reviewed periodically. To the extent that these conversion terms differ from those which would be calculated using the method and assumptions consistent with those used for determining the technical provisions, there may be a financial gain or loss in this Section of the Scheme relative to these assumptions when a member exercises the relevant option. Such gains or losses will be taken into account in setting contributions at successive actuarial investigations.

5.30 Furthermore, in accordance with section 8.1 of the Defined Contribution Rules, the employer performing the role of the bank may, in certain cases, determine that the Trustee's terms for the purchase in the Scheme of defined contribution members' pension be replaced by terms more favourable to the member. No advance allowance is included in the funding plan for the potential additional liability arising in such cases. To the extent that the employer performing the role of the bank instructs the Trustee to use more favourable terms, the Trustee will assess the additional liability arising (using assumptions broadly consistent with those used for the element of the technical provisions relating to pensions for defined contribution members) and the employer performing the role of the bank will pay additional contributions to fund this liability.

5.31 The Trustee and the employers understand the approach adopted in respect of each of the discretionary practices described above and are content with the allowances made, particularly in the light of their likely materiality in the context of the overall funding plan.

Augmentations

5.32 The Trustee may, with the approval of the bank, award additional benefits to members. The cost of such augmentations will be met either through additional contributions or, subject to the principles set out in the Risk Management Framework in Section 7 and where agreed between the Trustee and the bank, met from the general assets of the Scheme.

Section 6: Solvency

6.1 The Trustee believes it is appropriate to ensure that this Section of the Scheme provides a substantial degree of security for members' benefits since it is always possible that one or more of the participating employers will become insolvent. Although the Trustee has not adopted the solvency measure described below as the statutory or a subsidiary funding objective, the Trustee considers that the Scheme Actuary's statutory estimate of solvency is a useful reference point when considering the adequacy of the technical provisions.

6.2 Indeed, the Trustee intends that it should remain possible to run this Section of the Scheme such that, by pursuing a low risk, closely matched investment policy, there is a strong expectation that all members' discontinuance benefits will be able to be provided in full from this Section of Scheme without the support of the participating employers. Discontinuance benefits are the same as the prospective accrued benefits taken into account in the technical provisions but assume that any remaining active employed members are treated as having left service with deferred benefits.

6.3 For the purposes of assessing the level of prudence in the technical provisions, the Trustee considers that it is reasonable to consider a solvency measure which reflects the likely cost of securing members' benefits through the purchase of annuities from an insurance company. The Scheme Actuary has also adopted this approach in determining the Actuary's statutory estimate of solvency under the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

6.4 The detailed assumptions adopted by the Scheme Actuary for the statutory estimate of solvency as at 31 December 2022 are also set out in the Appendix.

Section 7: Risk management

7.1 This section describes the approach under which, subject to statutory and covenant constraints, the Trustee and HSBC UK Bank plc, as the employer performing the role of the bank for this section of the Scheme, intend to manage this Section over the long term. Nothing in this Section of this Statement is intended to override statutory requirements, or the provisions of (and powers set out in) the Scheme Rules.

7.2 This approach incorporates a number of aspects as follows:

- Long term targets
- Asset allocation
- Risk management objectives
- Monitoring and funding trigger levels
- Impact of changes in employer covenant

Long term targets

7.3 The Trustee and bank have agreed the adoption at this valuation of a ‘Low Risk Funding Measure’ in order to assist in the management of the HBUK Section of the Scheme. This ‘Low Risk Funding Measure’ includes reserves in relation to the potential risks facing the funding of that Section of the Scheme with the intention that full funding by reference to this measure would result in a very low likelihood of additional funds being required to be paid by the employers to fund the HBUK Section of the Scheme. The assumptions to be adopted for the Low Risk Funding Measure will be discussed at each actuarial valuation but it is expected that the assumptions adopted at the effective date of each formal actuarial investigation would (notwithstanding that the figures may fluctuate relative to each other between valuations) result in that part of the Low Risk Funding Measure which relates to the defined benefit payments and expenses not being greater than the corresponding amount taken into account in the actuary’s estimate of the solvency of the scheme as at the same date. The assumptions agreed for this calculation as at 31 December 2022 are set out in the Appendix.

7.4 The Low Risk Funding Measure is a non-statutory measure and is not intended to be used to inform future contributions into the Scheme, nor to replace any other function of the technical provisions measure. Details of the nature of the LRFM, and how it is used in the management of the Scheme, are recorded in this Statement of Funding Principles. The inclusion of these details is not intended to create any requirement, statutory or otherwise, other than as agreed in this Statement and in the Schedule of Contributions in force from time to time.

Asset allocation

7.5 As at the date of the 31 December 2022 valuation, the assets held for the HBUK Section of the Scheme reflected a low level of investment risk.

Risk management objectives

7.6 When exercising its powers of investment, including in implementing the hedging arrangements adopted for this section of the Scheme, the Trustee intends to consider, and take into account,

- the exposure of this section of the Scheme, including the potential impact on the funding position measured relative to the Low Risk Funding Measure, to:
  - potential future changes in interest and inflation rates,
  - potential fluctuations in the market value of assets, and the expected returns of those assets, which are expected to outperform the yields on gilts, and
  - potential fluctuations in the experience of this section, including as a result of funding any items from the general assets of the Scheme.
- The cashflow matching characteristics of the assets versus the HBUK Section's liabilities, including:
  - any signs of a structural deterioration in the credit-worthiness of assets held, and
  - any mis-match between the size and shape of projected asset cash flows versus projected liability cash flows.
- The bank's views on its preferred investment strategy to be followed for any surplus of assets above the Low Risk Funding Measure.

7.7 The bank confirms its intention to consider and take into account the matters in paragraph 7.6 above when making determinations under DC Rule 6.1 of part 3 of schedule 2 of the Scheme's Trust Deed and Rules (credits to be satisfied from the general assets of the Scheme), with a view to maintaining coverage of the Low Risk Funding Measure at or above 100%.

7.8 In addition, the Trustee and bank will agree the various items that can be met from the general assets of the Section from time to time (as opposed to being met by employer contributions) and will record these in the Schedule of Contributions.

7.9 The maximum overall level annual amount of the general assets of the Section that can be applied in accordance with paragraph 7.8 this way in each calendar year shall be such that, after allowing for these maximum amounts of usage over the period from the valuation date, the lowest projected funding level (as assessed by the Actuary as at the effective date of the valuation) at the 31 December following the end of the period covered by the Schedule of Contributions measured by reference to the Low Risk Funding Measure is 100%. The Trustee and the bank acknowledge that the purpose of this paragraph is to protect the security of accrued member benefits by avoiding a scenario where the funding level measured by reference to the Low Risk Funding Measure may reduce below 100%, without restricting the bank's discretion to make legitimate use of any surplus above the level of the Low Risk Funding Measure.

7.10 In the event that the latest published annual update provided by the Scheme Actuary in accordance with paragraph 9.1 of this statement discloses a shortfall of assets below the Low Risk Funding Measure, contributions for the amounts referred to in paragraph 7.8 shall recommence with effect from the 1 January following the effective date of the review, such contributions being backdated to that 1 January, and payable in accordance with the Schedule of Contributions. If a subsequent annual update discloses that there is no longer a shortfall, contributions will (subject to the limits set out in the previous paragraph) cease as soon as reasonably practicable.

Monitoring and funding trigger levels

7.11 The assets of this Section of the Scheme and the amount required to make provision for its liabilities will be monitored by the Trustee's Asset & Liability Committee (ALCo) on a quarterly basis, with market related factors being updated quarterly. Key monitoring statistics shall, in the normal course of events, be shared by the Trustee with the bank. Annual actuarial reports, as well as the results of the monitoring in paragraph 9.1, and Actuarial Valuation reports will be shared with the bank in accordance with statutory requirements.

7.12 The Trustee will consider, and discuss with HSBC UK Bank plc, the remedial actions that could be taken (in addition to those set out in paragraph 7.10) in the event that, in the period between valuations, the Low Risk Funding Measure funding level is projected within the next six years (by reference to 'best estimate' assumptions and allowing for the items described in paragraph 7.8) to fall below 100%.

Impact of changes in employer covenant

7.13 The technical provisions for this Section of the Scheme are based upon the Trustee's assessment of the employer covenant, and the circumstances of this Section of the Scheme, at the time of the 2022 actuarial investigation.

7.14 The Trustee will regularly review the employer's covenant. A material deterioration in the current or expected future ability of the participating employers (and, where relevant, HSBC Holdings plc) to support this section of the Scheme, or some other material event, would be expected to lead to a reassessment of the technical provisions assumptions themselves (and any recovery plan needed).

Section 8: Summary of assumptions

8.1 A detailed summary of the assumptions adopted for the calculation of the technical provisions, the Low Risk Funding Measure and the Scheme Actuary's statutory estimate of solvency as at the effective date of the most recent actuarial investigation, 31 December 2022, is set out in the Appendix.

Section 9: Frequency of actuarial investigations

9.1 Each actuarial investigation should be carried out no more than three years after the preceding one. The most recent actuarial investigation has been carried out as at 31 December 2022. Each year, until the next actuarial investigation is agreed, the Scheme Actuary will be asked to provide an estimate of the up-to-date financial position of this Section of the Scheme relative to both the statutory funding objective, the actuary's statutory estimate of solvency and the Low Risk Funding Measure. The Scheme Actuary will also be asked to provide a projection of the funding level measured by reference to the Low Risk Funding Measure, calculated using best estimate assumptions and allowing for the items described in paragraph 7.8, limited as described in paragraph 7.9.

9.2 The Trustee and participating employers recognise that there is likely to be short term volatility between the value of the assets and the amount required to meet the liabilities, and the updates provided by the Scheme Actuary will not (subject to the risk management provisions of Section 7) normally lead to changes in the required contributions, or limits in the use of surplus, ahead of the next actuarial investigation unless, after discussions, the Trustee and the employer performing the role of the bank agree upon them.

9.3 The Trustee may request an actuarial investigation at any time should they so wish, which they might consider doing following:

- a request from the HSBC UK Bank plc or HSBC Holdings plc,
- if there is any event which might have a significant effect upon the participating employers' covenant,
- if there is a significant change to the benefit provisions of this Section of the Scheme,
- if there is a significant change in the membership for any reason,
- if there are any other factors that the Trustee considers would have a material impact on this Section of the Scheme's finances.

9.4 Unless otherwise agreed by HSBC UK Bank plc and the Trustee, and subject to the above paragraphs, the next statutory valuation of the HBUK Section of the Scheme will be as at 31 December 2025.

9.5 Unless otherwise agreed, each actuarial valuation will be subject to the same requirements, including reporting requirements and timescales, as apply to actuarial investigations carried out in accordance with Part 3 of the Pensions Act 2004.

Section 10: Transferring assets to the employers

10.1 Both the Scheme Rules and pensions legislation limit the circumstances in which any surplus may be transferred to an employer. Under the Trust Deed a payment can only be made to the employers on a wind up of the Scheme.

Section 11: Cash equivalent transfer value calculations

11.1 Statutory cash equivalent transfer values calculated by reference to assumptions determined by the Trustee based on actuarial advice are available to members who leave service up to one year before Normal Pension Age. In view of the security offered by this Section of the Scheme and the employer covenant (as assessed by the Trustee) the Trustee makes these payments in full, without reduction. This policy is subject to regular review.

Section 12: Contributions, other than by members or employers

12.1 The 58th Deed of Variation ("Deed of Amendment, Admission and Agreement" introduced an arrangement for HSBC Holdings to make payments to the Scheme in certain circumstances. There are no further arrangements for contributions to be made to this Section of the Scheme other than by members or employers.

Section 13: Confirmation of advice from the Scheme Actuary and agreement of participating employers

13.1 The Trustee confirms that it has received advice from the Scheme Actuary concerning this statement and that it agrees the contents of this statement.

13.2 HSBC UK Bank plc confirms, for itself and on behalf of all the employers participating in the HBUK Section of the Scheme, its agreement to the contents of this statement.

DocuSigned by:
Russell Picot
4B86BAB9ACD64E5...

Russell Picot
For and on behalf of
HSBC Bank Pension Trust (UK) Limited

DocuSigned by:
Claire Baird
12822FED508A44A...

Claire Baird
For and on behalf of
HSBC UK Bank plc

25 March 2024

Appendix A: Description of assumptions

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	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. These returns are assumed to be net of investment expenses.	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. This return is assumed to be gross of investment expenses. 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. 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.	*Post-retirement discount rate*: 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. *Pre-retirement discount rate*: 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.

	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			
	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).		
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	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: • *Longevity pricing reserve* (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% • *Longevity pricing reserve* (for new pensioners and all deferreds): 4.5% • *Longevity implementation reserve* (for pensioners who had retired prior to the on-risk date of the longevity hedge but who are not covered by that hedge): 1% • *Longevity implementation reserve* (for new pensioners): 1% • *Additional longevity implementation reserve* (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

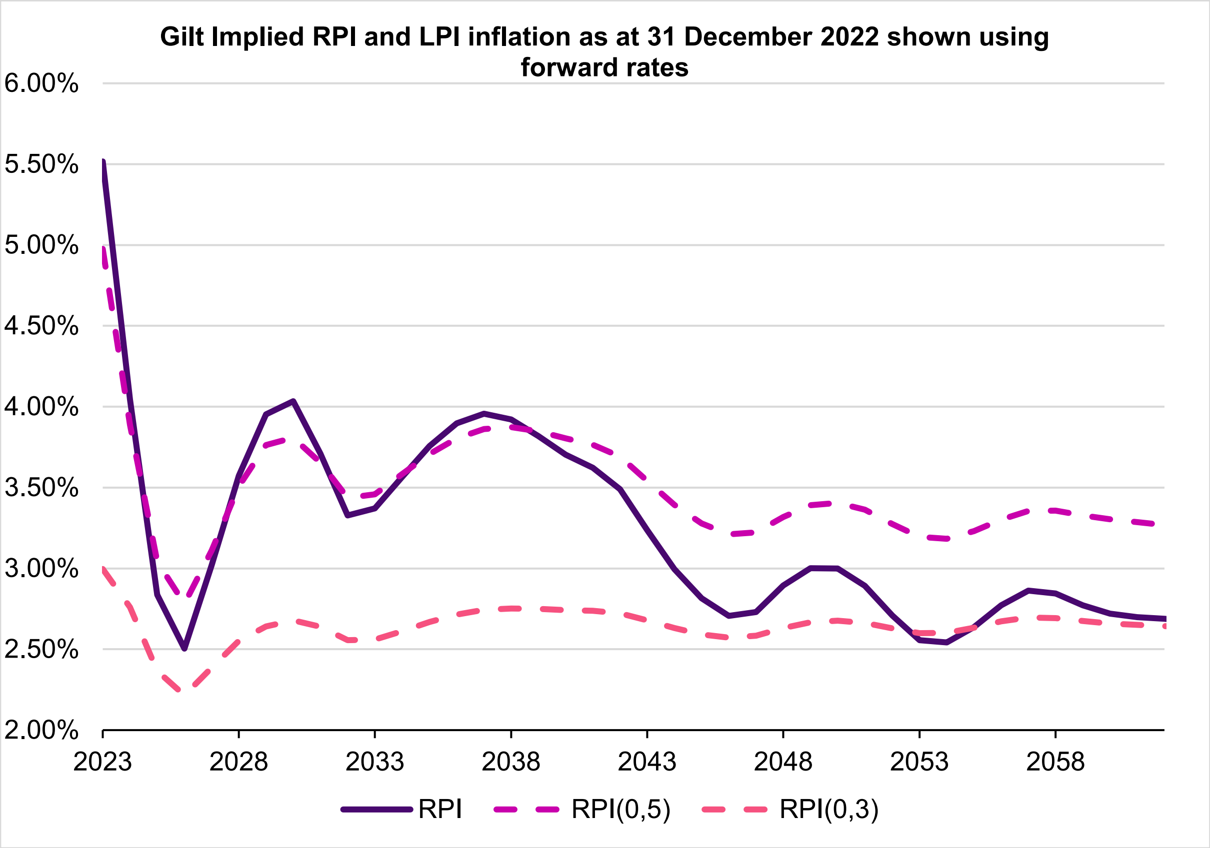
	Technical provisions	Low Risk Funding Measure	Statutory estimate of solvency
Salary increases	0.75% pa above CPI price inflation from 2024 (allowance for salary growth up to and including March 2023 having been included in the data provided). Salaries are subject to an assumed maximum of £300,000 pa. The liability calculation will assume that salary increases are awarded on each 1 March, reflecting inflation to the previous September.	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	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)	n/a	n/a
	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).	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	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. 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.	For defined benefit administrative expenses, a reserve is established as for the Technical Provisions of 2.3% of best estimate liabilities. 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: • 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.	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. A 1% loading is also added to make provision for the costs of residual risks insurance cover.
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%