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

Pillar 3 Report 2022

Contents

Presentation of information

This document comprises the Annual Pillar 3 Report 2022 for HSBC Innovation Bank Limited (formerly Silicon Valley Bank UK Limited) ('HINV', formerly 'SVBUK'). 'We', 'us' and 'our' refer to HSBC Innovation Bank Limited.

All narrative disclosures and tables within the Report are unaudited & our reporting currency is £ sterling.

Cautionary Statement Regarding Forward-Looking Statements

The Pillar 3 Report 2022 contains certain forward-looking statements with respect to the financial condition, results of operations and business of HINV.

Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. We make no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Overview

These Pillar 3 disclosures comprise information on the underlying drivers of risk-weighted assets ('RWA'), capital, leverage and liquidity ratios as of 31 December 2022 in accordance with the UK's Onshored Capital Requirements Regulation ('UK CRR') and the PRA's Rulebook. The disclosures have been prepared in line with the disclosure templates introduced by the PRA Policy Statement PS22/21 'Implementation of Basel standards: Final rules' published in October 2021. This report presents our Pillar 3 disclosures as of 31 December 2022 and should be read in conjunction with our 2022 Annual Report and Accounts ('AR&A'). The information presented in this Pillar 3 report is not required to be, and has not been, subjected to external audit.

This document has two principal purposes:

• To provide useful information on our prudential metrics and risk profile.

• To meet the regulatory disclosure requirements set out by the Prudential Regulation Authority ('PRA') in the Disclosure section of the PRA Rulebook.

Following the UK's withdrawal from the EU the PRA published PS17/21 'Implementation of Basel standards: Final rules' in July 2021 which took effect on 1 January 2022. The purpose of the proposed rules was to implement the remaining amendments to the Capital Requirements Regulation ('CRR2') elements of the Basel international standards in the UK.

We meet the definition of a non-listed "Other Institution" and comply with the requirements in accordance with Article 433c of the Disclosure (CRR) Part of the PRA Rulebook.

In October 2021, the PRA published its Policy Statement on the UK leverage ratio framework confirming that the CRR leverage ratio will not apply to UK banks. We do not meet the criteria set out in the PRA rulebook for a binding minimum leverage ratio, however the leverage ratio has been disclosed in accordance with the PRA's requirements.

Disclosure policy

The following sets out a summary of our Pillar 3 disclosure policy.

Basis of preparation
This document has been prepared to comply with the Disclosure (CRR) Part of the PRA Rulebook which was incorporated into the PRA Rulebook from 1 January 2022. No material disclosures have been omitted and nor have any disclosures been omitted from this document for confidentiality purposes. Since we became a bank in 2022, there are no meaningful comparatives to report or compare against. Therefore, only the period balances at 31 December 2022 have been disclosed throughout this document.

Media and location
This information is published in conjunction with the AR&A which can be found on the Companies House website. In addition to financial information, our AR&A includes information relating to HINV's business profile, risk management framework and governance structure.

Verification
Our Pillar 3 disclosures are not required to be subject to external audit however it has been subject to the same internal control process as the AR&A. The Pillar 3 document was reviewed by the Board Audit Committee. In addition, the remuneration disclosures as detailed in this document have been reviewed and approved by the Remuneration Committee.

Scope
We do not have any subsidiaries and are subject to solo prudential regulatory supervision by the PRA. Therefore, it is a requirement for us to calculate and maintain regulatory capital ratio on a solo basis. Our capital requirements have been presented in these disclosures. There are no differences

between the basis of consolidated supervision for accounting and regulatory purposes.

Board responsibility for risk management and disclosures

One of our core objectives is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Board of Directors, who are also responsible for setting our strategy, risk appetite and control framework.

The Board considers that, as of 31 December 2022, we had in place adequate systems and controls regarding our risk profile and strategy. Furthermore, the Board can confirm that we remained within defined limits for risk exposure throughout the year for all principal risks (refer to page 7). We also operated in line with our internal capital targets.

In accordance with the Disclosure part of the CRR and our Pillar 3 disclosure policy, we are required to ensure that our external disclosures portray our risk profile comprehensively. The Board have considered the adequacy of the Pillar 3 disclosures in relation to these requirements and are satisfied that they convey our risk profile comprehensively. The disclosures of risk management objectives and procedures within this Pillar 3 document are detailed further within the Risk section of the AR&A.

Key Metrics

The table below shows our key metrics.

Key metrics	31 December 2022
Available capital (£'000)	
Common Equity Tier 1 (CET1) capital	1,041,683
Tier 1 capital	1,363,683
Total capital	1,396,683
Risk-weighted Assets ('RWA') (£'000)	
Total RWA	7,496,138
Capital ratios (as a percentage of RWA) (%)	
Common Equity Tier 1 ratio	13.9
Tier 1 ratio	18.2
Total capital ratio	18.6
Additional own funds requirements based on SREP [1] (% of RWA)	
Additional CET1 SREP requirements	1.8
Additional AT1 SREP requirements	0.6
Additional T2 SREP requirements	0.8
Total SREP own funds requirements	11.2
Combined buffer requirement (% of RWA)	
Capital conservation buffer	2.5
Institution specific countercyclical capital buffer	0.6
Combined buffer requirement	3.1
Overall capital requirements	14.3
CET1 available after meeting the total SREP own funds requirements	7.6
Leverage ratio	
Total exposure measure excluding claims on central banks (£'000)	11,687,362
Leverage ratio excluding claims on central banks (%)	11.7
Liquidity Coverage Ratio ('LCR') [2]	
Total high-quality liquid assets (HQLA) (Weighted value average) (£'000)	5,355,884
Cash outflows - Total weighted value (£'000)	4,812,602
Cash inflows - Total weighted value (£'000)	1,244,365
Total net cash outflows (adjusted value) (£'000)	3,568,237
Liquidity coverage ratio (%) (adjusted value)	150
Net Stable Funding Ratio ('NSFR') [3]	
Total available stable funding - Total weighted value (£'000)	6,004,055
Total required stable funding - Total weighted value (£'000)	2,952,432
NSFR ratio (%) (adjusted value)	203

[1] The outcome of our Supervisory Review and Evaluation Process ("SREP") has been shown here.
[2] The weighted values represent the simple average of the preceding 5 month-end observations used to calculate the LCR. The 5-month average was used, as opposed to the prescribed 12 months due to the commencement of our banking operations occurring on 1 August which has rendered 5 observable months being the maximum available.
[3] The weighted values represent the simple average of the preceding 2 quarter-end observations used to calculate the NSFR. The 2-quarter average was used, as opposed to the prescribed 4 quarters due to the commencement of our banking operations occurring on 1 August which has rendered 2 observable quarters being the maximum available.

Capital & Risk Weighted-Assets

The composition of our regulatory capital, RWA and capital requirements are shown in the tables below.

Composition of Regulatory Capital[1]	31 December 2022
Common Equity Tier 1 (CET1) capital: instruments and reserves (£'000)	
Capital instruments and the related share premium accounts	978,000
of which: share capital	978,000
Retained earnings	60,528
Accumulated other comprehensive income (and other reserves)	14,456
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,052,984
Common Equity Tier 1 (CET1) capital: regulatory adjustments (£'000)	
Additional value adjustments	(221)
Intangible assets	(11,080)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(11,301)
Common Equity Tier 1 (CET1) capital	1,041,683
Additional Tier 1 (AT1) capital: instruments (£'000)	
Capital instruments and the related share premium accounts	322,000
of which: classified as equity under applicable accounting standards	322,000
Additional Tier 1 (AT1) capital	322,000
Tier 1 capital (T1 = CET1 + AT1)	1,363,683
Tier 2 (T2) capital: instruments (£'000)	
Capital instruments and the related share premium accounts	33,000
Tier 2 (T2) capital	33,000
Total capital (TC = T1 + T2)	**1,396,683**
Total risk-weighted assets (RWA)	**7,496,138**
Capital ratios and buffers (%)	
Common Equity Tier 1 (as a percentage of total RWA)	13.9
Tier 1 (as a percentage of total RWA)	18.2
Total capital (as a percentage of total RWA)	18.6
Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	9.4
of which: capital conservation buffer requirement	2.5
of which: countercyclical buffer requirement	0.6
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.6

[1] Article 26(2) as defined by Article 4(123) of the UK CRR allows firms to incorporate audited retained earnings within qualifying CET1 capital. We have included these amounts as qualifying.

Overview of RWA	RWAs £'000 31 December 2022	Capital Requirement £'000 31 December 2022
Credit risk (excluding CCR)	**6,997,168**	**559,773**
Of which the standardised approach	6,997,168	559,773
Counterparty credit risk - CCR	**230,257**	**18,421**
Of which the standardised approach	192,328	15,386
Of which credit valuation adjustment - CVA	37,929	3,034
Operational risk	**268,713**	**21,497**
Of which basic indicator approach	268,713	21,497
Total	**7,496,138**	**599,691**

During 2022 we issued £978 million in ordinary shares which qualify as Core Equity Tier 1 capital. We also issued Additional Tier 1 notes of £322 million as well as £33 million in subordinated debt which qualifies as Tier 2 capital. These issuances have been able to support net loans to clients of £5.7 billion at the end of the period reflecting a strong year of growth across our Strategic Fund Services (‘SFS’) and Technology and Life Science businesses on the back of record activity levels and increased client commitments.

The table below demonstrates our minimum capital requirements against our actual ratios. It shows that we are well capitalised and can continue to support our customers in the future.

Capital 'stack' - required against actual (%)

	Minimum	Pillar 2A	TSCR[1]	Actual	Surplus[2]
CET1	4.5	1.8	6.3	13.9	7.6
Tier 1	6.0	2.4	8.4	18.2	9.8
Total	**8.0**	**3.2**	**11.2**	**18.6**	**7.4**

[1] TSCR is the Total SREP Capital requirement and represents the outcome of our ICAAP.
[2] Surplus capital represents the extent we are able to meet all our buffers: the combined buffer and PRA buffer.

Risk Management

Our approach to risk
We recognise that there are a number of risks in the normal course of business providing services, lending, deposit taking and FX activities within the innovation economy.

The Board has overall responsibility for establishing and ensuring maintenance of a robust system of risk management and internal controls and approving our overall risk appetite. Our risk management framework and associated committee governance are designed to ensure that there is a clear structure with well defined, consistent lines of responsibility and effective processes to identify, manage, monitor, and report risks to which we are or might become, exposed and that we remain sound including during plausible but severe economic downturn and/or idiosyncratic stress.

Identification, measurement, and management of risk are core to our success. Over the past 12 months we have continued to enhance our risk management framework and the processes that support the assessment and management and mitigation of our principal risks based on the three lines of defence model.

A detailed description of our approach to risk management is contained on pages 13 to 22 in our AR&A.

The Pillar 3 document requires all principal risks to be disclosed to provide a comprehensive view of a bank's risk profile.

These risks, and how they are managed have been disclosed within the AR&A:

Credit risk (refer to page 13 in our AR&A)

Market risk (refer to page 16 in our AR&A)

Liquidity risk (refer to page 17 in our AR&A)

Capital risk (refer to page 18 in our AR&A)

Compliance, conduct and financial crime risk (refer to pages 19 to 20 in our AR&A)

Operational risk (refer to page 20 in our AR&A)

Reputational risk (refer to page 21 in our AR&A)

Strategic risk (refer to page 21 in our AR&A)

Group risk (refer to page 21 in the AR&A)

Stress testing is an important a core component of the risk management framework and is used with scenario analysis to support the assessment and understanding of risks. Stress testing activity is used as part of our key annual assessments:

• the Internal Capital Adequacy Assessment Process ('ICAAP');

• Individual Liquidity Adequacy Assessment Process ('ILAAP'),

• the Recovery Plan; and

• Reverse Stress Testing ('RST').

The principal risks highlighted above were mitigated to the extent possible by HSBC Innovation Bank Limited ('HINV') at the time it was Silicon Valley Bank UK Limited. HINV became a wholly owned subsidiary of HSBC UK Bank plc on 13 March 2023 as a result of a liquidity event which emanated from its ultimate parent company, SVB Financial Group. This event and subsequent actions have been described on page 3 of our AR&A. Notwithstanding the events of March 2023, as we note in page 11 of our AR&A, no proportionate approach to risk management can deal with the kind of catastrophic contagion event experienced by the business.

Governance

Full details of our corporate governance structure, including details of our Directors can be found on pages 23 to 29 in our Annual Report and Accounts.

Directorships held by members of the Board

The number of directorships and partnerships, including their roles within the Bank, held by the Executive and Non-Executive Directors who served on the Board as of 31 December 2022 are detailed below:

Name	Directorships[1]
Darren Pope	4
Patrick Flynn	2
Astrid Grey	3
Helen Heslop	5
Gavin Hewitt	1
Vinodka Murria	6
Erin Platts	2

[1] Directorships within the same group count as one

Board recruitment

The Board has delegated specific powers and authority to the Nomination Committee to lead the appointments process for nominations to fill Board vacancies. It is also responsible for keeping the size, structure, and composition of the Board under regular review, and for making recommendations to the Board regarding any necessary changes. The Nomination Committee also formulates succession plans for the Chair, Non-Executive Directors and the senior Executive Directors.

All Board appointments are subject to a formal, rigorous, and transparent procedure. Before an appointment is made to the Board, the Nomination Committee evaluates the balance of skills; experience; independence; knowledge and diversity on the Board; and the future challenges affecting us, and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

In identifying suitable candidates, the Nomination Committee will:

• Use such methods as it deems appropriate, including the use of open advertising or the services of external advisers to facilitate the search;

• Have regard to the balance of skills, experience, and knowledge on the Board appropriate for the business and the cognitive skills, personal strengths and, where relevant, the independence of the candidate, as well as assessing the impact individual candidates will have on overall Board diversity;

• Consider candidates on merit and against defined job specifications and criteria, taking care that appointees have enough time to devote to the position; and

• Have due regard to regulatory approval criteria.

The Board has delegated specific powers and authority to the Remuneration Committee for determining the total individual remuneration package of each of our Executive Directors. The remuneration of Non-Executive Directors, including the Chair, is a matter reserved for our shareholder. No Director or senior manager is involved in any decisions as to their own remuneration.

Board diversity

We seek to ensure that at least half the Board, excluding the Chair, is made up of independent non-executive directors, and is diverse, bringing perspectives, skills, and experiences from a wide range of backgrounds and disciplines. The Board includes 4 female members, 57% of its total composition.

Remuneration

We apply the proportionality principle in accordance with the general expectations and guidance of the PRA and the FCA for firms of our proportionality level. We are currently identified as a proportionality level three firm.

Approach to remuneration
Our remuneration policy is designed to be consistent with and promote sound and effective risk management and not to encourage risk-taking that exceeds our risk appetite. It is designed in line with our business strategy, objectives, values and long-term interests. The policy and procedures incorporate measures to avoid conflicts of interest and are subject to independent internal review at least annually by compliance and Senior Management.

Senior Management finalise and authorise the annual remuneration for all staff, which includes senior officers in the risk management and compliance functions.

Decision-making process for determining the remuneration policy
In line with regulatory guidance, remuneration is overseen by the Remuneration Committee. The Remuneration Committee is responsible for our overall remuneration strategy, overseeing the remuneration governance framework and ensuring that remuneration arrangements are consistent with effective risk management. The Remuneration Committee meets at least twice a year and ad hoc meetings may be scheduled as necessary. In 2022, the Remuneration Committee met seven times.

The Remuneration Committee consists of no fewer than two independent non-executive members of the Board. Members are appointed by the Board on recommendation of the Nomination Committee and in consultation with the Chair. The Remuneration Committee received advice from a third-party specialist firm on Non-Executive Director remuneration during the year.

Link between pay and performance
We have a pay for performance philosophy which is reflected in the compensation philosophy and applies across the entire business. Performance is taken into account at every step of the variable compensation cycle, from the ex-ante adjustment, where applicable, and determination of variable compensation awards, to the delivery, and where applicable, ex-post adjustment of compensation.

Performance review ratings are considered by our managers when making incentive compensation awards and managers are provided with guidelines to assist them with this process. The performance rating is based on achievement of individual goals along with performance against financial and non-financial measures which include completion of compliance training, adherence to our Code of Conduct and other internal policies. Poor performance, disciplinary or regulatory breaches may result in a reduced incentive payment or no payment at all.

The assessment of performance is set in a multi-year framework to ensure the assessment process is based on longer term performance and the payment of performance-based components of remuneration consider the underlying business cycle and its risks.

The information below sets out the remuneration of individuals who served for at least part of the year as a Material Risk taker (MRT). These members of staff have been classified as MRTs as they could have a material impact on our risk profile. The information has been shown by management structure as well as business area.

For the period ended 31 December 2022[1]

Remuneration awarded by senior management and other members of staff:

	Supervisory function	Management function	Other senior management	Other identified staff	Total
Number of Identified Staff	**7**	**9**	**3**	**32**	**51**
Total Fixed Remuneration (£'000)	797	1,034	169	2,646	
Total Variable Remuneration (£'000)	496	808	36	1,305	
Total Remuneration (£'000)	**1,293**	**1,842**	**205**	**3,951**	

Remuneration awarded split between management body and business area:

	Management body (MB)			Business Areas			
	Supervisory function	Management function	Total MB	Retail banking[2]	Corporate functions	Internal control functions	All other
Number of identified staff	7	9	**16**	3	12	11	9
Total Fixed Remuneration (£'000)	797	1,034	**1,831**	298	744	1,117	656
Total Variable Remuneration (£'000)	496	808	**1,304**	257	267	480	337
Total Remuneration (£'000)	**1,293**	**1,842**	**3,135**	**555**	**1,011**	**1,597**	**993**

[1] These amounts relate to the period from 1 August to 31 December 2022.

[2] Per the instructions for the REM5 template 'Retail banking' includes wholesale lending.

END PAGE