HSBC Bank Middle East Limited - UAE Operations

Financial Statements 2020

HSBC

Contents

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Independent auditor's report to the directors of HSBC Bank Middle East Limited in respect of its UAE Operations

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank Middle East Limited in respect of its UAE Operations (the "Branch") as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statements of income and comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Branch in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ('IESBA Code') and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Additional information on page 66 to 69 (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Mohamed ElBorno, Jacques Fakhoury, Douglas O'Mahony and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the directors of HSBC Bank Middle East Limited in respect of its UAE Operations *(continued)*

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report to the directors of HSBC Bank Middle East Limited in respect of its UAE Operations *(continued)*

Auditor's responsibilities for the audit of the financial statements

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
23 March 2021

Rami Sarhan
Registered Auditor Number 1152
Place: Dubai, United Arab Emirates

Income statement

for the year ended 31 December

	Notes	2020 AED000	2019 AED000
Net interest income		**2,283,695**	2,862,414
– interest income		**2,662,361**	3,740,630
– interest expense		**(378,666)**	(878,216)
Net fee income	3	**1,084,230**	1,242,888
– fee income		**1,328,811**	1,607,405
– fee expense		**(244,581)**	(364,517)
Net income from financial instruments held for trading or managed on a fair value basis		**661,402**	550,412
Changes in fair value of designated debt and related derivatives	4	**(18,382)**	14,752
Gains less losses from financial investments		**34,904**	571
Other operating income, net		**313,411**	304,831
Net operating income before change in expected credit losses and other credit impairment and other credit risk provisions		**4,359,260**	4,975,868
Change in expected credit losses and other credit impairment charges	5	**(2,017,067)**	(389,099)
Net operating income		**2,342,193**	4,586,769
Employee compensation and benefits	6	**(1,631,689)**	(1,716,163)
General and administrative expenses		**(819,675)**	(723,282)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(103,312)**	(97,000)
Amortisation and impairment of intangible assets		**(61,007)**	(35,497)
Total operating expenses		**(2,615,683)**	(2,571,942)
Operating profit/(loss)	5	**(273,490)**	2,014,827
Profit/(loss) before tax		**(273,490)**	2,014,827
Tax expense	8	**2,358**	(290,834)
Profit/(loss) for the year		**(271,132)**	1,723,993
Attributable to:			
– shareholders of the parent company		**(271,132)**	1,723,993
Profit/(loss) for the year		**(271,132)**	1,723,993

The accompanying notes on pages 10 to 65 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December

	2020 AED000	2019 AED000
Profit/(loss) for the year	**(271,132)**	1,723,993
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value though other comprehensive income	**69,267**	58,893
– fair value gains	**41,077**	64,018
– fair value gains transferred to the income statement on disposal	**34,903**	571
– expected credit losses recognised in income statement	**885**	323
– income taxes	**(7,598)**	(6,019)
Cash flow hedges	**18,687**	147,023
– fair value gains	**20,763**	163,359
– income taxes	**(2,076)**	(16,336)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**32,575**	104,166
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**1,852**	(23,618)
– fair value gains/(losses)	**1,852**	(23,618)
Other comprehensive income for the year, net of tax	**122,381**	286,464
Total comprehensive income/(expense) for the year	**(148,751)**	2,010,457

The accompanying notes on pages 10 to 65 form an integral part of these financial statements.

Statement of financial position

at 31 December

	Notes	2020 AED000	2019 AED000
Assets			
Cash and balances at central banks		**1,397,105**	6,801,242
Items in the course of collection from other banks		**94,741**	96,665
Trading assets	*10*	**2,723,985**	715,529
Derivatives	*13*	**6,672,843**	4,067,877
Loans and advances to banks	*24*	**21,399,336**	11,396,438
Loans and advances to customers	*24*	**50,970,665**	54,300,341
Reverse repurchase agreements – non-trading		**6,717,643**	2,724,128
Financial investments	*14*	**31,236,457**	32,926,634
Prepayments, accrued income and other assets	*17*	**3,607,627**	4,599,620
Intangible assets	*18*	**337,861**	212,355
Deferred tax assets	*8*	**797,494**	603,070
Total assets		**125,955,757**	118,443,899
Liabilities and Head Office funds			
Liabilities			
Deposits by banks	*24*	**12,718,407**	15,568,396
Customer accounts	*24*	**77,743,228**	66,049,223
Repurchase agreements – non-trading		**1,860,357**	–
Items in the course of transmission to other banks		**230,418**	438,173
Trading liabilities	*19*	**1,100,279**	176,269
Financial liabilities designated at fair value	*20*	**6,414,853**	9,234,673
Derivatives	*13*	**6,556,397**	3,755,320
Debt securities in issue	*21*	**596,617**	595,166
Accruals, deferred income and other liabilities	*22*	**4,195,364**	7,311,800
Current tax liabilities		**234,711**	271,597
Provisions	*23*	**267,541**	133,432
Total liabilities		**111,918,172**	103,534,049
Head Office funds			
Allocated capital		**4,495,255**	4,495,255
Legal reserves		**2,247,628**	2,247,628
Other reserves		**1,005,920**	680,417
Unremitted profits		**6,288,782**	7,486,550
Total Head Office funds		**14,037,585**	14,909,850
Total liabilities and Head Office funds at 31 Dec		**125,955,757**	118,443,899

The accompanying notes on pages 10 to 65 form an integral part of these financial statements.

Abdulfattah Sharaf
Chief Executive Officer

Statement of cash flows

for the year ended 31 December

	Notes	2020 AED000	2019 AED000
Cash flows from operating activities			
Profit/(loss) before tax		**(273,490)**	2,014,827
Adjustments for:			
Net (gain) from investing activities		**(33,559)**	(14,114)
Other non-cash items included in profit/(loss) before tax	26	**2,401,793**	813,342
Change in operating assets	26	**(78,185)**	8,496,593
Change in operating liabilities	26	**6,630,092**	15,482,238
Benefits paid		**(58,612)**	(60,185)
Tax paid		**(238,627)**	(241,078)
Net cash generated from operating activities		**8,349,412**	26,491,623
Cash flows from investing activities			
Net cash flows from the purchase and sale of property, plant and equipment		**(16,374)**	(45,290)
Net cash flows from sale/maturity of financial investments		**2,425,091**	(18,697,587)
Net investment in intangible assets		**(186,511)**	(140,246)
Net cash generated from/(used) in investing activities		**2,222,206**	(18,883,123)
Cash flows from financing activities			
Transfer of profits to Head Office		**(734,500)**	(708,793)
Subordinated loan capital repaid		**—**	(2,754,375)
Net debt securities issued/ (repaid)		**1,451**	(4,699,095)
Net cash used in financing activities		**(733,049)**	(8,162,263)
Net increase/(decrease) in cash and cash equivalents		**9,838,569**	(553,763)
Cash and cash equivalents at 1 Jan[1]		**11,749,756**	12,303,519
Cash and cash equivalents at 31 Dec	26	**21,588,325**	11,749,756

1 *Cash and cash equivalents include mandatory deposits amounting to AED 829m (2019: AED 6,154m) at central banks which are not available for use by the Bank.*

The accompanying notes on pages 10 to 65 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December

	Allocated Capital	Legal Reserve[2]	Other reserves: Financial assets at FVOCI reserves	Other reserves: Cash flow hedging reserve	Other reserves: Actuarial gains/ (losses) reserve	Other reserves[1]	Unremitted profits[2]	Total Head Office funds
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2020	**4,495,255**	**2,247,628**	**33,929**	**75,780**	**(106,859)**	**677,567**	**7,486,550**	**14,909,850**
Loss for the year	–	–	–	–	–	–	**(271,132)**	**(271,132)**
Other comprehensive income (net of tax)	–	–	**69,267**	**18,687**	**32,575**	**1,852**	–	**122,381**
– debt instruments at fair value through other comprehensive income	–	–	**69,267**	–	–	–	–	**69,267**
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	–	–	–	–
– cash flow hedges	–	–	–	**18,687**	–	–	–	**18,687**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	**1,852**	–	**1,852**
– remeasurement of defined benefit asset/liability	–	–	–	–	**32,575**	–	–	**32,575**
– exchange differences	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	**69,267**	**18,687**	**32,575**	**1,852**	**(271,132)**	**(148,751)**
Transfer of profits to Head Office	–	–	–	–	–	–	**(734,500)**	**(734,500)**
Transfer to Impairment Reserve	–	–	–	–	–	**220,509**	**(220,509)**	–
Other movements	–	–	–	–	–	**(17,387)**	**28,373**	**10,986**
At 31 Dec 2020	**4,495,255**	**2,247,628**	**103,196**	**94,467**	**(74,284)**	**882,541**	**6,288,782**	**14,037,585**
At 1 Jan 2019	4,495,255	2,202,002	(24,964)	(71,243)	(211,025)	677,784	6,543,323	13,611,132
Profit for the year	–	–	–	–	–	–	1,723,993	1,723,993
Other comprehensive income (net of tax)	–	–	58,893	147,023	104,166	(23,618)	–	286,464
– debt instruments at fair value through other comprehensive income	–	–	58,893	–	–	–	–	58,893
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	–	–	–	–
– cash flow hedges	–	–	–	147,023	–	–	–	147,023
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	(23,618)	–	(23,618)
– Actuarial gains on defined benefit plans	–	–	–	–	104,166	–	–	104,166
– exchange differences	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	58,893	147,023	104,166	(23,618)	1,723,993	2,010,457
Transfer of profits to Head Office	–	–	–	–	–	–	(708,793)	(708,793)
Transfer to legal reserve		45,626	–	–	–	–	(45,626)	–
Transfer to Impairment Reserve	–	–	–	–	–	–	–	–
Other movements	–	–	–	–	–	23,401	(26,347)	(2,946)
At 31 Dec 2019	4,495,255	2,247,628	33,929	75,780	(106,859)	677,567	7,486,550	14,909,850

1 *Other reserve includes the General Impairment Reserve of AED 653 million (2019: AED 653 million) and the Specific Impairment Reserve of AED 221 million (2019: nil) as per the requirements of the Central Bank of the UAE ('CBUAE'). The impairment reserves were created in relation to the excess of Central Bank of UAE provision requirements over the IFRS 9 model ECLs. The reserves are appropriation of retained earnings and is not available for distribution.*

2 *The legal reserve and unremitted profits on the statement of financial position were disclosed as AED 2,374 million and AED 7,358 million respectively in the Financial Statements 2019.*

The accompanying notes on pages 10 to 65 form an integral part of these financial statements.

Notes on the financial statements

1 Legal status and principal activities

HSBC Bank Middle East Limited – United Arab Emirates ('UAE') Operations ('the Bank') is a branch of HSBC Bank Middle East Limited ('HBME'). HBME has its place of incorporation and head office in the Dubai International Financial Centre ('DIFC'), in the United Arab Emirates, under a category 1 licence issued by the Dubai Financial Services Authority ('DFSA').

The immediate parent company of HBME is HSBC Middle East Holdings BV and the ultimate parent company of the Bank is HSBC Holdings plc ('HSBC Group' or 'HSBC'), which is incorporated in England.

The Bank is regulated by the Central Bank of the UAE ('CBUAE').

The principal activity of the Bank is to offer a comprehensive range of financial services to personal, commercial, corporate and institutional clients, which are carried out from its branches as follows:

Abu Dhabi	Bur Dubai	Deira
Jumeirah	Jebel Ali	Sharjah
Ras Al Khaimah	Fujairah	

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee.

Standards adopted during the year ended 31 December 2020

Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The Bank has adopted the amendments from 1 January 2020 and has made the additional disclosures as required by the amendments.

Other changes

In addition, the Bank has adopted a number of interpretations and amendments to standards, which have had an insignificant effect on the financial statements of the Bank.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2021 that are applicable to the Bank. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. The Bank expects they will have an insignificant effect, when adopted, on the financial statements of the Bank.

Major new IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2021. The Bank has assessed the impact of IFRS 17 and expects that the standard will have no significant effect, when applied, on the financial statements of the Bank.

(c) Foreign currencies

The Bank's financial statements are presented in UAE dirhams because the UAE dirham is the major currency in which the Bank transacts and funds its business. The UAE dirham is also the Bank's functional currency because the UAE dirham is the most significant currency relevant to underlying transactions, as well as representing a significant proportion of its funds generated from financing activities.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

(d) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in section 2.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of these financial statements. Management's selection of the Bank's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(e) Segmental analysis

The Bank's chief operating decision maker is the UAE Executive Committee ('EXCO'). Operating segments are reported in a manner consistent with the internal reporting provided to EXCO and the HBME Board.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the Bank's accounting policies. Segmental income and expenses include transfers between segments, and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

Change in reportable segments

Effective from 2Q20, the Bank made the following realignments within its internal reporting to Chief Operating Decision Maker ('CODM'):

- Simplification of our matrix organisational structure by merging Global Private Banking ('GPB') and Retail Banking and Wealth Management ('RBWM') to form Wealth and Personal Banking ('WPB').
- Reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Comparative data have been re-presented accordingly.

Products and services

The Bank manages products and services to its customers in the region through global businesses.

- Wealth and Personal Banking ('WPB') provides a full range of retail banking and wealth products to customers from personal banking to ultra-high net worth individuals. Typically, customer offerings include retail banking products, such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. WPB also provides wealth management services, including insurance and investment products, global asset management services, investment management and Private Wealth Solutions for customers with more sophisticated and international requirements.
- Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of commercial customers, including small- and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards), commercial insurance and investments. CMB also offers customers access to products and services offered by other global businesses, such as GBM, which include foreign exchange products, raising capital on debt and equity markets and advisory services.
- Global Banking and Markets ('GBM') provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services, a markets business that provides services in credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.
- Corporate Centre comprises Central Treasury and central stewardship costs that support the Bank's businesses.

2.2 Summary of significant accounting policies

(a) Joint arrangements

Joint arrangements are investments in which the Bank, together with one or more parties, has joint control. Depending on the Bank's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture.

The Bank recognises its share of the assets, liabilities and results in a joint operation.

(b) Income and expenses

Operating income

Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value (except for debt securities issued by the Bank and derivatives managed in conjunction with those debt securities) are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Non-interest income and expense

The Bank generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Bank delivers a specific transaction at the point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the Bank's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

The Bank acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades the Bank acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The Bank recognises fees earned on transaction-based arrangements at a point in time when we have fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the Bank offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis'. This element is comprised of the net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities measured at fair value through profit or loss'. This includes interest income and interest expense in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt and related derivatives'. Interest on the external long-term debt and interest cash flows on related derivatives is presented in interest expense.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'. This includes interest on instruments which fail the SPPI test.

(c) Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Bank recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out, the valuation inputs become observable or the Bank enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Bank manages a group of financial assets and liabilities according to its net market or credit risk exposure, the Bank measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The Bank accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

The Bank may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Bank intends to hold the loan, the loan commitment is included in the impairment calculations.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

(e) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets that are held for a business model achieved by collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss.

(f) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- where the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis'.

Under the above criterion, the main classes of financial instruments designated by the Bank are:

- Long-term debt issues.

The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

(g) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit and loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Where the derivatives are managed with debt securities issued by the Bank that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The Bank uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges or cash flow hedges as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

Critical accounting estimates and judgements

Various jurisdictions are in the process of replacing existing interbank benchmark unsecured interbank lending rates with alternative risk free rates, and different jurisdictions are moving at different speeds with different solutions for replacements. There is uncertainty as to the timing and the method of transition for many products, and whether some existing benchmarks will continue to be supported in some way. Judgement is needed to determine how the existing hedge accounting relationships are impacted by the transition. On balance, there is sufficient support for continuing hedge accounting for those relationships which are impacted.

(h) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for Expected Credit Losses ('ECL') resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit- impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be purchased or originated credit-impaired ('POCI') and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit-impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps
Greater than 3.3 and not impaired	2x

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 48.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Bank calculates ECL using three main components, a probability of default, a loss given default and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The Bank leverages the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows.

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due, this has been modified to 180+ days past due for some portfolios	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Bank and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The Bank applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside, Downside scenarios and Additional Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Bank's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 65% and the Upside a the Downside scenario 25% and the Upside and Additional Downside 5%, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product of UAE. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices across all the countries in which the Bank operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The Bank recognises that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgements

The calculation of the Bank's ECL under IFRS 9 requires the Bank to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk • Determining the lifetime and point of initial recognition of overdrafts and credit cards • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	• The section on page 42, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(i) Employee compensation and benefits

Share-based payments

Shares in HSBC Holdings plc are awarded to employees in certain cases. Equity-settled share-based payment arrangements entitle employees to receive equity instruments of HSBC.

The vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The Bank contributes to the UAE Nationals Pension and Social Security Scheme as per the requirements of the Government of the United Arab Emirates. For locally recruited employees (non – UAE Nationals), end of service benefits are calculated and paid in accordance with the UAE Federal Labour Law. The Bank's net obligation in respect of such end of service benefits is the amount of future benefits that employees have earned in return for their service in current and prior periods.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Re-measurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

The Bank also makes contributions to the HSBC International Staff Retirement Benefit Scheme in respect of a small number of International Managers being seconded to the Bank by the HSBC Group. The Bank accounts for contributions to this scheme as if it is a defined contribution scheme on the basis that any actuarial gains and losses would not be material.

(j) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and any adjustment to tax payable in respect of previous years. The Bank provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

Current and deferred tax is calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical accounting estimates and judgements

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies.

(k) Debt securities in issue

Financial liabilities for debt securities issued are recognised when the Bank enters into contractual arrangements with counterparties and are initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial guarantees, is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life.

(l) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation which has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

(m) Acceptances and endorsements

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability of the Bank and is therefore recognised as a financial liability with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

(o) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets such as property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the Cash Generating Unit ('CGU') level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU is its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs.

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

Critical accounting estimates and judgements

The review of goodwill and other non-financial assets for impairment reflects management’s best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the Critical accounting estimates and judgements in Note 2.1(d).

3 Net fee income

	2020 AED000	2019 AED000
Credit Facilities	**127,476**	167,124
Remittances	**96,233**	110,121
Cards	**352,080**	480,400
Global Custody	**42,587**	54,614
Trade finance	**140,353**	140,240
Account services	**60,181**	117,616
Insurance agency	**40,383**	43,947
Corporate/project finance	**27,515**	75,747
Others[1]	**442,003**	417,595
Total Fee Income	**1,328,811**	1,607,405
Fee Expense	**(244,581)**	(364,517)
Net Fee Income	**1,084,230**	1,242,888

1 *Others include intercompany fee of AED 201 million (2019: AED 211 million). Refer Note 31 for further details of Related Party Transactions.*

4 Changes in fair value of designated debt and related derivatives

	2020 AED000	2019 AED000
Net (expense)/income arising on:		
– other changes in fair value	**(18,382)**	14,752
Year ended 31 Dec	**(18,382)**	14,752

5 Operating profit/(loss)

Operating profit/(loss) is stated after the following items:

	2020 AED000	2019 AED000
Income		
Interest recognised on impaired financial assets	**34,671**	18,100
Interest recognised on financial assets measured at amortised cost	**2,434,613**	3,310,509
Interest recognised on financial assets measured at FVOCI	**224,510**	426,385
Fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**1,127,982**	1,396,596
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value	**(281,470)**	(488,833)
Fees payable on financial liabilities that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**(215,513)**	(311,381)
Restructuring provisions	**(33,462)**	(52,629)
Gains/(losses)		
Losses on disposal of property, plant and equipment, intangible assets and non-financial investments	**(1,344)**	(4,670)
Change in expected credit loss charges and other credit impairment charges	**(2,017,067)**	(389,099)
– loans and advances to banks and customers	**(1,885,635)**	(334,848)
– loans commitments and guarantees	**(135,285)**	(43,159)
– other financial assets	**4,672**	(10,784)
– debt instruments measured at fair value though other comprehensive income	**(819)**	(308)

6 Employee compensation and benefits

	2020 AED000	2019 AED000
Wages and salaries	**1,543,663**	1,607,162
Social security costs	**16,697**	15,348
Post-employment benefits	**71,329**	93,653
Year ended 31 Dec	**1,631,689**	1,716,163

Share-based payments

'Wages and salaries' include the effect of share-based payments arrangements, all equity settled, as follows:

	2020 AED000	2019 AED000
Restricted share awards	**26,478**	28,100
Savings-related and other share award option plans	**206**	161
Year ended 31 Dec	**26,684**	28,261

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Present value of defined benefit obligations	Net defined benefit liability
	AED000	AED000
At 1 Jan 2020	**(501,483)**	**(501,483)**
Current service cost	**(59,653)**	**(59,653)**
Net interest cost on the net defined benefit liability	**(9,756)**	**(9,756)**
Re-measurement effects recognised in other comprehensive income – actuarial gains	**32,575**	**32,575**
Exchange differences and other movements	**(2,491)**	**(2,491)**
Benefits paid	**58,612**	**58,612**
At 31 Dec 2020	**(482,196)**	**(482,196)**
At 1 Jan 2019	(562,973)	(562,973)
Current service cost	(73,737)	(73,737)
Net interest cost on the net defined benefit liability	(18,353)	(18,353)
Re-measurement effects recognised in other comprehensive income – actuarial gains	104,166	104,166
Exchange differences and other movements	(10,771)	(10,771)
Benefits paid	60,185	60,185
At 31 Dec 2019	(501,483)	(501,483)

Post-employment defined benefit plans' principal actuarial financial assumptions

The principal actuarial financial assumptions used to calculate the Bank's obligations under its defined benefit pension plans at 31 December for each year, and used as the basis for measuring periodic costs under the plans in the following years, were as follows:

Key actuarial assumptions for the principal plan

	Discount rate	Rate of pay increase	Combined rate of resignation and employment termination
	%	%	%
United Arab Emirates			
At 31 Dec 2020	**1.48**	**0.25**	**7.00**
At 31 Dec 2019	2.24	1.70	7.00

The Bank determines discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of current average yields of long term, high quality corporate bonds.

The effect of changes in key assumptions on the principal plan

	United Arab Emirates	
	2020	2019
	AED000	AED000
Discount rate		
Change in scheme obligation at year end from a 25bps increase	**(8,406)**	(4,209)
Change in scheme obligation at year end from a 25bps decrease	**8,670**	14,152
Change in following year scheme cost from a 25bps increase	**(1,833)**	(105)
Change in following year scheme cost from a 25bps decrease	**155**	93
Rate of pay increase		
Change in scheme obligation at year end from a 25bps increase	**9,356**	14,721
Change in scheme obligation at year end from a 25bps decrease	**(9,107)**	(4,800)
Change in following year scheme cost from a 25bps increase	**1,664**	1,616
Change in following year scheme cost from a 25bps decrease	**(944)**	(1,581)

7 Auditors' remuneration

	2020	2019
	AED000	AED000
Audit fees payable to PwC	3,427	2,765
Year ended 31 Dec	**3,427**	2,765

Fees payable by the Bank to PwC

		2020	2019
	Footnotes	AED000	AED000
Fees for HSBC Bank Middle East Limited statutory audit	1	3,427	2,765
– relating to current year		3,427	2,765
Fees for other services provided to the Bank		2,127	2,903
– audit-related assurance services	2	1,748	2,503
– Other Assurance services		379	400
Year ended 31 Dec		**5,554**	5,668

1 *Fees payable to PwC for the statutory audit of the financial statements of the Bank.*
2 *Including services for assurance and other services that relate to statutory and regulatory filings, including interim reviews.*

No fees were payable by the Bank to PwC as principal auditor for:internal audit services and services related to litigation, recruitment and remuneration.

8 Tax

Tax expense

	2020	2019
	AED000	AED000
Current tax	192,066	196,700
– for this year	208,224	234,579
– adjustments in respect of prior years	(16,158)	(37,879)
Deferred tax	(194,424)	94,134
Year ended 31 Dec	**(2,358)**	290,834

Tax reconciliation

The tax charged to the income statement differs from the tax charge that would apply if all profits had been taxed at the corporate tax rate applicable in UAE:

	2020		2019	
	AED000	%	AED000	%
Profit/(loss) before tax	(273,490)		2,014,827	
Tax expense				
Taxation at UAE corporate tax rate of 20% (2019: 20%)	(54,698)	20.0	402,965	20.0
Adjustment in respect of prior period liabilities	(16,158)	5.9	(37,879)	(1.9)
Non-taxable income and gains	15,654	(5.7)	(106,722)	(5.3)
Permanent disallowables	10,151	(3.7)	19,143	1.0
Local taxes and overseas withholding taxes	15,372	(5.6)	13,327	0.7
Other items	27,321	(10.0)	—	—
Overall tax expense	**(2,358)**	**0.9**	290,834	14.4

The tax charge is determined by applying the official tax rate of 20% to the taxable profits arising in the Emirates of Abu Dhabi, Dubai, Sharjah, Fujairah and Ras Al Khaimah branches.

Movement of deferred tax assets and liabilities

	Loan impairment allowances	Other	Total
	AED000	AED000	AED000
Assets	576,667	26,403	603,070
At 1 Jan 2020	576,667	26,403	603,070
Income statement	118,083	76,341	194,424
At 31 Dec 2020	694,750	102,744	797,494
Assets	694,750	102,744	797,494
Assets	669,618	27,586	697,204
At 1 Jan 2019	669,618	27,586	697,204
Income statement	(92,951)	(1,183)	(94,134)
At 31 Dec 2019	576,667	26,403	603,070
Assets	576,667	26,403	603,070

Unrecognised deferred tax

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was AED 27 million (2019: nil).

9 Segment analysis

Profit/(loss) for the period

	2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
Full year	AED000	AED000	AED000	AED000	AED000
Net interest income	993,062	517,959	778,781	(6,107)	2,283,695
Net fee income	309,184	324,694	463,855	(13,503)	1,084,230
Net income from financial instruments held for trading or managed on a fair value basis	145,363	74,860	441,694	(515)	661,402
Other income	49,310	45,140	32,912	202,571	329,933
Net operating income before change in expected credit losses and other credit impairment charges	1,496,919	962,653	1,717,242	182,446	4,359,260
Change in expected credit losses and other credit impairment charges	(417,748)	(1,052,930)	(546,389)	–	(2,017,067)
Net operating income	1,079,171	(90,277)	1,170,853	182,446	2,342,193
Total operating expenses	(1,072,324)	(562,963)	(752,787)	(227,609)	(2,615,683)
Operating profit/(loss)	6,847	(653,240)	418,066	(45,163)	(273,490)
Profit/(loss) before tax	6,847	(653,240)	418,066	(45,163)	(273,490)

	2019				
Net interest income	1,246,539	694,414	927,336	(5,875)	2,862,414
Net fee income	372,343	351,821	533,303	(14,579)	1,242,888
Net income from financial instruments held for trading or managed on a fair value basis	154,469	83,201	311,586	1,156	550,412
Other income	28,706	45,939	61,303	184,206	320,154
Net operating income before loan impairment charges and other credit risk	1,802,057	1,175,375	1,833,528	164,908	4,975,868
Change in expected credit losses and other credit impairment charges	(142,401)	(161,472)	(85,226)	–	(389,099)
Net operating income	1,659,656	1,013,903	1,748,302	164,908	4,586,769
Total operating expenses	(1,075,988)	(543,015)	(756,965)	(195,974)	(2,571,942)
Operating profit/(loss)	583,668	470,888	991,337	(31,066)	2,014,827
Profit/(loss) before tax	583,668	470,888	991,337	(31,066)	2,014,827

Balance sheet information

	2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	AED000	AED000	AED000	AED000	AED000
Loans and advances to customers (net)	10,275,687	17,781,976	22,911,680	–	50,969,343
Total assets	37,851,857	27,452,071	55,503,034	5,148,795	125,955,757
Customer accounts	38,782,458	14,359,383	24,601,339	48	77,743,228
Total liabilities	45,599,434	18,631,859	44,549,670	3,137,209	111,918,172

	2019				
Loans and advances to customers (net)	11,766,761	19,701,477	22,831,964	139	54,300,341
Total assets	37,534,485	29,293,418	46,869,763	4,746,233	118,443,899
Customer accounts	35,273,604	11,893,040	18,882,531	48	66,049,223
Total liabilities	44,584,088	17,539,495	37,626,927	3,783,539	103,534,049

10 Trading assets

	2020 AED000	2019 AED000
Trading assets:		
– not subject to repledge or resale by counterparties	**2,723,985**	715,529
At 31 Dec	**2,723,985**	715,529
Debt securities	**825,705**	499,867
Treasury and other eligible bills	**271,596**	215,662
Trading securities	**1,097,301**	715,529
Trading reverse repurchase agreements	**1,011,534**	–
Loans and advances to customers	**129,126**	–
Loans and advances to banks	**486,024**	–
At 31 Dec	**2,723,985**	715,529

11 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is used. For inactive markets, the Bank sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

The majority of financial instruments measured at fair value are in GBM. GBM's fair value governance structure comprises its Finance function, Valuation Committee and a Valuation Committee Review Group. Finance is responsible for establishing procedures governing valuation and ensuring fair values are in compliance with accounting standards. The fair values are reviewed by the Valuation Committee, which consist of independent support functions. These Committees are overseen by the Valuation Committee Review Group, which considers all material subjective valuations.

Financial liabilities measured at fair value

In certain circumstances, the Bank records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument concerned, where available. An example of this is where own debt in issue is hedged with interest rate derivatives. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are either based upon quoted prices in an inactive market for the instrument, or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to the Bank's liabilities. The change in fair value of issued debt securities attributable to the Bank's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using a Libor-based discount curve. The difference in the valuations is attributable to the Bank's own credit spread. This methodology is applied consistently across all securities.

The credit spread applied to these instruments is derived from the spreads at which the Bank issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Bank is taken in reserves (OCI), the residual risks (rates, volatility, time effects) are Fair valued through Profits and Losses.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the Bank can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2020				2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	AED000	**AED000**	**AED000**	**AED000**	AED000	AED000	AED000	AED000
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**558,749**	**1,879,374**	**285,862**	**2,723,985**	12,537	409,286	293,706	715,529
Derivatives	**—**	**6,663,377**	**9,466**	**6,672,843**	—	4,047,137	20,740	4,067,877
Financial investments	**20,389,188**	**10,847,269**	**—**	**31,236,457**	16,410,521	16,516,113	—	32,926,634
Liabilities								
Trading liabilities	**511,009**	**589,270**	**—**	**1,100,279**	—	176,269	—	176,269
Financial liabilities designated at fair value	**—**	**6,414,853**	**—**	**6,414,853**	—	9,234,673	—	9,234,673
Derivatives	**—**	**6,546,404**	**9,993**	**6,556,397**	—	3,753,538	1,782	3,755,320

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each semi-annual reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

During 2020 there was a transfer of AED nil (2019: AED nil) from Level 2 to Level 1 Financial Investments. The transfers from Level 2 to Level 3 during the year are shown in 'Movement in Level 3 financial instruments' on page 25.

Fair value adjustments

Fair value adjustments are adopted when the Bank considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required.

Bid-offer

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit and debit valuation adjustment

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Bank may not receive the full market value of the transactions.

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Bank may default, and that the Bank may not pay full market value of the transactions.

The Bank calculates a separate credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA') for each group legal entity, and within each entity for each counterparty to which the entity has exposure.

The Bank calculates the credit valuation adjustment by applying the probability of default ('PD') of the counterparty conditional on the non-default of the Bank to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Bank calculates the debit valuation adjustment by applying the PD of the Bank, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Bank and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

Funding fair value adjustment

The funding fair value adjustment is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the Bank or the counterparty.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets			Liabilities	
	Trading Assets	Derivatives	Total	Derivatives	Total
	AED000	AED000	AED000	AED000	AED000
Trading Assets	**285,862**	**—**	**285,862**	**—**	**—**
Other Derivatives	**—**	**9,466**	**9,466**	**9,993**	**9,993**
At 31 Dec 2020	**285,862**	**9,466**	**295,328**	**9,993**	**9,993**
Trading Assets	293,706	—	293,706	—	—
Other Derivatives	—	20,740	20,740	1,782	1,782
At 31 Dec 2019	293,706	20,740	314,446	1,782	1,782

Derivatives

OTC (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures or estimated from historical data or other sources.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets		Liabilities
	Trading Assets	Derivatives	Derivatives
	AED000	AED000	AED000
At 1 Jan 2020	**293,706**	**20,740**	**1,782**
Total gain/(losses) recognised in profit or loss	**(7,844)**	**(4,749)**	**—**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	**(7,844)**	**(4,749)**	**—**
Purchases	**—**	**16,229**	**16,290**
Sales	**—**	**—**	**—**
Settlements	**—**	**(22,754)**	**(8,079)**
Transfers in	**—**	**—**	**—**
At 31 Dec 2020	**285,862**	**9,466**	**9,993**
Unrealised (losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	**(7,844)**	**(4,749)**	**—**
– net expense from financial instruments held for trading or managed on a fair value basis	**(7,844)**	**(4,749)**	**—**
At 1 Jan 2019	293,698	—	—
Total losses recognised in profit or loss	8	(6,815)	—
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	8	(6,815)	—
Purchases	—	31,789	1,782
Sales	—	—	—
Settlements	—	(4,234)	—
Transfers in	—	—	—
At 31 Dec 2019	293,706	20,740	1,782
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2019	—	(6,815)	—
– net expense from financial instruments held for trading or managed on a fair value basis	—	(6,815)	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

		31 Dec 2020				31 Dec 2019			
		Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
		Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	Footnotes	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Derivatives and trading assets	*1*	**—**	**(7,973)**	**—**	**—**	224	(11,388)	173	(84)
Total		**—**	**(7,973)**	**—**	**—**	224	(11,388)	173	(84)

1 Derivatives and trading assets are presented as one category to reflect the manner in which these instruments are risk-managed.

12 Fair values of financial instruments not carried at fair value

Fair values of financial instruments not carried at fair value and bases of valuation

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	AED000	AED000	AED000	AED000	AED000
At 31 Dec 2020					
Assets					
Loans and advances to banks	**21,399,336**	**–**	**21,508,779**	**–**	**21,508,779**
Loans and advances to customers	**50,970,665**	**–**	**–**	**50,499,785**	**50,499,785**
Reverse repurchase agreements – non-trading	**6,717,643**	**–**	**6,595,994**	**–**	**6,595,994**
Liabilities					
Deposits by banks	**12,718,407**	**–**	**12,790,793**	**–**	**12,790,793**
Customer accounts	**77,743,228**	**–**	**77,787,203**	**–**	**77,787,203**
Repurchase agreements – non-trading	**1,860,357**	**–**	**1,847,408**	**–**	**1,847,408**
Debt securities in issue	**596,617**	**–**	**596,702**	**–**	**596,702**
At 31 Dec 2019					
Assets					
Loans and advances to banks	11,396,438	–	11,375,811	–	11,375,811
Loans and advances to customers	54,300,341	–	–	53,603,778	53,603,778
Reverse repurchase agreements – non-trading	2,724,128	–	2,724,128	–	2,724,128
Liabilities					
Deposits by banks	15,568,396	–	15,575,379	–	15,575,379
Customer accounts	66,049,223	–	66,402,641	–	66,402,641
Repurchase agreements – non-trading	–	–	–	–	–
Debt securities in issue	595,166	–	594,486	–	594,486

Other financial instruments not carried at fair value are typically short-term in nature and re-priced to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

Valuation

The fair value measurement is the Bank's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Bank expects to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include forward looking discounted cash flow models using assumptions which the Bank believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that take into consideration the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as their balances are generally short dated.

Debt securities

Subject to available quotes, the Bank uses composite market data to price debt securities at FVOCI. This is applicable to the High Quality Liquid Assets ('HQLA') portfolio. For local currency bonds, where such market data is not available, verified internal valuation models are used for valuations. These are normally Local Government and Central bank securities issued in their local currencies and uses market data published by the issuing entities.

13 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held by the Bank

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Foreign exchange	**475,977,609**	**3,309,373**	**2,730,315**	**10,757**	**2,741,072**	**2,663,185**	**–**	**2,663,185**
Interest rate	**209,301,388**	**22,089,927**	**3,627,670**	**252,354**	**3,880,024**	**3,605,384**	**234,871**	**3,840,255**
Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credit	**178,116**	**–**	**1,121**	**–**	**1,121**	**2,331**	**–**	**2,331**
Commodity and other	**1,734,389**	**–**	**50,626**	**–**	**50,626**	**50,626**	**–**	**50,626**
At 31 Dec 2020	**687,191,502**	**25,399,300**	**6,409,732**	**263,111**	**6,672,843**	**6,321,526**	**234,871**	**6,556,397**
Foreign exchange	384,363,675	4,040,225	1,425,485	84,612	1,510,097	1,327,830	161	1,327,991
Interest rate	178,532,213	22,304,193	2,240,483	257,263	2,497,746	2,234,680	150,217	2,384,897
Equities	–	–	–	–	–	–	–	–
Credit	3,864,586	–	19,172	–	19,172	1,570	–	1,570
Commodity and other	2,434,102	–	40,862	–	40,862	40,862	–	40,862
At 31 Dec 2019	569,194,576	26,344,418	3,726,002	341,875	4,067,877	3,604,942	150,378	3,755,320

The notional contract amounts of derivatives held for trading purposes and derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Use of derivatives

The Bank transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge the Bank's own risks.

The Bank's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Bank employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

Trading derivatives

Most of the Bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Hedge accounting derivatives

Fair value hedges

The Bank enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss, including debt securities held and issued.

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]
Hedged Risk	AED000	AED000	AED000		AED000
Interest rate	**10,776,496**	**20,925**	**234,871**	**Derivatives**	**(102,758)**
At 31 Dec 2020	**10,776,496**	**20,925**	**234,871**		**(102,758)**
Interest rate	8,533,497	19,861	149,403	Derivatives	(128,318)
At 31 Dec 2019	8,533,497	19,861	149,403		(128,318)

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*

Hedged item by hedged risk

	Hedged Item						In-effectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	AED000	AED000	AED000	AED000		AED000	AED000	
Interest rate	**10,706,941**	**–**	**169,581**	**–**	**Financial Investments**	**102,151**		**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**–**	**–**	**–**	**–**	**L&A to Bank**	**(3,269)**	**(4,777)**	
Interest rate	**1,416,925**	**–**	**84,982**	**–**	**L&A to Cust**	**6,737**		
Interest rate	**–**	**255,887**	**–**	**7,145**	**Debt issued**	**(4,086)**		
Interest rate	**–**	**259,910**	**–**	**10,158**	**Depo by Bank**	**(3,552)**		
At 31 Dec 2020	**12,123,866**	**515,797**	**254,563**	**17,303**		**97,981**	**(4,777)**	
Interest rate	7,274,545	–	105,815	–	Financial Investments	132,585		Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	552,520	–	5,224	–	L&A to Bank	9,101	499	
Interest rate	1,912,266	–	16,865	–	L&A to Cust	3,740		
Interest rate	–	255,405	–	3,059	Debt issued	(12,265)		
Interest rate	–	259,910	–	6,606	Depo by Bank	(4,344)		
At 31 Dec 2019	9,739,331	515,315	127,904	9,665		128,817	499	

1 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component. The hedged item is either the benchmark interest rate risk portion within the fixed rate of the hedged item or the full fixed rate and it is hedged for changes in fair value due to changes in the benchmark interest rate risk.

Sources of hedge ineffectiveness may arise from basis risk including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value and notional and timing differences between the hedged items and hedging instruments.

For some debt securities held, the Bank manages interest rate risk in a dynamic risk management strategy. The assets in scope of this strategy are high quality fixed-rate debt securities, which may be sold to meet liquidity and funding requirements.

The interest rate risk of the Bank fixed rate debt securities issued is managed in a non-dynamic risk management strategy.

Cash flow hedges

The Bank's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

The Bank applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows

representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The Bank also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross-currency swaps; these are considered non-dynamic hedges.

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount1	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	AED000	AED000	AED000		AED000	AED000	AED000	
Foreign currency	**3,309,373**	**10,757**	**–**	**Derivatives**	**6,409**	**6,409**	**–**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**11,313,431**	**231,429**	**–**	**Derivatives**	**156,950**	**163,359**	**–**	
At 31 Dec 2020	**14,622,804**	**242,186**	**–**		**163,359**	**169,768**	**–**	

Hedging instrument by hedged risk (continued)

Hedged Risk		Hedging Instrument			Hedged Item		Ineffectiveness	
		Carrying amount						
		Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
	AED000	AED000	AED000		AED000	AED000	AED000	
Foreign currency	4,040,225	84,612	161	Derivatives	2,372	—	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	13,770,696	237,402	814	Derivatives	160,987	163,359	22	
At 31 Dec 2019	17,810,921	322,014	975		163,359	163,359	22	

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.
3 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.

Interest rate benchmark reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

The first set of amendments ('Phase 1') to IFRS 9 and IAS 39, which were published in September 2019 and endorsed in January 2020, primarily allowed to assume that the interbank offered rates ('Ibors') are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to nearly risk free rates ('RFRs') is resolved. The second set of amendments ('Phase 2'), issued in August 2020 allows to modify hedge documentation to reflect the components of hedge relationships which have transitioned to RFRs on an economically equivalent basis as a direct result of the Ibor transition.

While the application of Phase 1 amendments is mandatory for accounting periods starting on or after 1 January 2020, the group has chosen to early apply the Phase 2 amendments from the beginning of 2020.

The Bank has cash flow and fair value hedge accounting relationships that are exposed to different Ibors, predominantly US dollar Libor, sterling Libor, and Euribor. Many of the existing derivatives and other financial instruments designated in relationships referencing these benchmarks are expected to transition to RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Bank's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the group that is expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 and Phase 2 amendments. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below:

Hedging Instrument impacted by Ibor Reform

	Hedging instrument						
	Impacted by Ibor Reform						
	EUR	**GBP**	**USD**	**Other**	**Total**	**NOT Impacted by Ibor Reform**	**Notional Contract Amount[1]**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
Fair Value Hedges	**42,746**	**250,766**	**8,482,038**	**1,998,948**	**10,774,498**	**—**	**10,774,498**
Cash Flow Hedges	**—**	**—**	**6,022,497**	**5,290,934**	**11,313,431**	**3,309,373**	**14,622,804**
At 31 Dec 2020	**42,746**	**250,766**	**14,504,535**	**7,289,882**	**22,087,929**	**3,309,373**	**25,397,302**
Fair Value Hedges	41,227	411,106	7,714,053	366,995	8,533,381	—	8,533,381
Cash Flow Hedges	—	—	7,027,599	6,742,908	13,770,507	—	13,770,507
At 31 Dec 2019	41,227	411,106	14,741,652	7,109,903	22,303,888	—	22,303,888

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

14 Financial investments

Carrying amount of financial investments

	2020	2019
	AED000	AED000
Financial investment measured at fair value through other comprehensive income		
Treasury and other eligible bills	**11,195,275**	5,733,067
Debt securities	**20,041,182**	27,193,567
At 31 Dec	**31,236,457**	32,926,634

15 Assets charged as security for liabilities, and collateral accepted as security for assets

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default is AED 8,752 million (2019: AED 3,173 million). The fair value of any such collateral sold or repledged is AED1,663 million (2019: nil). The Bank is obliged to return these assets. These transactions are conducted under terms that are usual and customary to standard securities borrowing and reverse repurchase agreements. The fair value of assets pledged as collateral but that do not qualify for derecognition is AED 184 million (2019: nil).

16 Joint arrangement

Joint arrangement of the Bank

	At 31 Dec 2020			
	Country of incorporation	**Principal activity**	**The Bank's interest in equity capital**	**Issued equity capital**
HSBC Middle East Leasing Partnership – (Joint operation)	**Dubai, UAE**	**Leasing**	**15.00%**	**US$621 million fully paid**

17 Prepayments, accrued income and other assets

	2020	2019
	AED000	AED000
Prepayments and accrued income	**647,974**	826,068
Endorsements and acceptances	**1,372,939**	1,979,167
Other accounts	**625,072**	780,084
Property, plant and equipment[1]	**961,642**	1,014,301
At 31 Dec	**3,607,627**	4,599,620

1 *As at 31 December 2020, net book value of HSBC Tower was AED 867 million (2019: AED 894 million) and depreciation charged during the year was AED 31 million (2019: AED 38 million).*

18 Intangible assets

Intangible Assets

Included within intangible assets is internally generated software with a net carrying value of AED 338 million (2019: AED 212 million).

During the year, capitalisation of internally generated software was AED 187 million (2019: AED 138 million), amortisation was AED 58 million (2019: AED 35 million) and impairment was AED 3 million (2019: nil).

19 Trading liabilities

The sale of borrowed securities is classified as trading liabilities.

	2020	2019
	AED000	AED000
Deposits by banks	**29,588**	–
Repurchase agreements	**559,682**	–
Net short positions in securities	**511,009**	176,269
At 31 Dec	**1,100,279**	176,269

20 Financial liabilities designated at fair value

	2020	2019
	AED000	AED000
Deposits by bank and customer accounts	**1,899,857**	2,860,225
Debt securities in issue (Note 21)	**4,514,996**	6,374,448
Total	**6,414,853**	9,234,673

At 31 December 2020, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of AED 53 million (2019: AED 40 million loss). As at 31 December 2020, the difference between the carrying amount and the amount contractually required to be paid at maturity was AED 176 million (2019: AED 349 million).

21 Debt securities in issue

	2020		2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	AED000	**AED000**	AED000	AED000
Medium-term notes	**5,111,613**	**5,111,698**	6,969,614	6,968,934
Total debt securities in issue	**5,111,613**	**5,111,698**	6,969,614	6,968,934
Included within:				
– financial liabilities designated at fair value (Note 20)	**(4,514,996)**	**(4,514,996)**	(6,374,448)	(6,374,448)
At 31 Dec	**596,617**	**596,702**	595,166	594,486

Movement in Debt securities in issue

	2020	2019
	AED000	AED000
Balance as at 1 January	**595,166**	5,294,261
New issues	**—**	—
Repayments	**—**	(4,707,668)
Other movements[1]	**1,451**	8,573
At 31 December	**596,617**	595,166

1 *Represents exchange rate movement on debts issued in foreign currency, discounts and premiums*

22 Accruals, deferred income and other liabilities

	2020	2019
	AED000	AED000
Accruals and deferred income	**617,981**	679,579
Share-based payments liability to HSBC Holdings plc	**24,239**	35,443
Endorsements and acceptances	**1,379,427**	1,980,977
Employee benefit liabilities (Note 6)	**482,196**	501,483
Other liabilities	**1,691,521**	4,114,318
At 31 Dec	**4,195,364**	7,311,800

23 Provisions

	Restructuring costs	Contractual commitments	Legal proceedings and regulatory matters	Other provisions	Total
	AED000	**AED000**	**AED000**	**AED000**	**AED000**
At 1 Jan 2020	**28,651**	**90,644**	**1,552**	**12,585**	**133,432**
Additions	**33,462**	**—**	**2,801**	**2,553**	**38,816**
Amounts utilised	**(26,727)**	**—**	**(2,818)**	**(2,553)**	**(32,098)**
Unused amounts reversed	**(7,910)**	**—**	**(1,192)**	**—**	**(9,102)**
Net Change in expected credit loss provision	**—**	**136,493**	**—**	**—**	**136,493**
Exchange and other movements	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**27,476**	**227,137**	**343**	**12,585**	**267,541**
At 1 Jan 2019	14,444	47,812	39,171	35,052	136,479
Additions	52,629	—	3,408	800	56,837
Amounts utilised	(35,256)	—	(3,831)	(902)	(39,989)
Unused amounts reversed	(3,166)	—	(59,837)	—	(63,003)
Net Change in expected credit loss provision	—	42,832	—	—	42,832
Exchange and other movements	—	—	22,641	(22,365)	276
At 31 Dec 2019	28,651	90,644	1,552	12,585	133,432

24 Maturity analysis of assets, liabilities and off-balance sheet commitments

The following is an analysis by remaining contractual maturities at the balance sheet date, of asset and liability line items that combine amounts expected to be recovered or settled within one year and after more than one year.

Trading assets and liabilities are excluded because they are not held for collection or settlement over the period of contractual maturity.

Maturity analysis of assets and liabilities

	At 31 Dec 2020				
	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	AED000	AED000	AED000	AED000	AED000
Financial assets					
Loans and advances to banks	**18,622,159**	**1,914,139**	**863,038**	**—**	**21,399,336**
Loans and advances to customers	**14,895,812**	**7,067,967**	**20,465,812**	**8,541,074**	**50,970,665**
Reverse repurchase agreements – non-trading	**5,573,206**	**199,648**	**944,789**	**—**	**6,717,643**
Financial investments	**20,502,964**	**2,365,268**	**7,810,017**	**558,208**	**31,236,457**
Other financial assets	**2,045,501**	**412,350**	**1,197**	**—**	**2,459,048**
	61,639,642	**11,959,372**	**30,084,853**	**9,099,282**	**112,783,149**
Financial liabilities					
Deposits by banks	**9,284,620**	**561,892**	**2,871,895**	**—**	**12,718,407**
Customer accounts	**73,447,475**	**4,101,287**	**194,466**	**—**	**77,743,228**
Repurchase agreements – non-trading	**1,702,534**	**—**	**157,823**	**—**	**1,860,357**
Financial liabilities designated at fair value	**262,979**	**2,324,921**	**3,797,635**	**29,318**	**6,414,853**
Debt securities in issue	**—**	**181,734**	**414,883**	**—**	**596,617**
Other financial liabilities	**2,883,437**	**412,350**	**1,197**	**—**	**3,296,984**
	87,581,045	**7,582,184**	**7,437,899**	**29,318**	**102,630,446**
Loan and other credit-related commitments	**43,218,678**	**—**	**—**	**—**	**43,218,678**
Financial guarantees and similar contracts	**34,341,063**	**—**	**—**	**—**	**34,341,063**
	At 31 Dec 2019				
Financial assets					
Loans and advances to banks	9,795,962	708,058	892,418	—	11,396,438
Loans and advances to customers	21,264,103	7,048,331	15,945,947	10,041,960	54,300,341
Reverse repurchase agreements – non-trading	571,352	1,461,279	691,497	—	2,724,128
Financial investments	15,135,289	8,832,187	8,578,550	380,608	32,926,634
Other financial assets	2,607,726	777,657	57,675	—	3,443,058
	49,374,432	18,827,512	26,166,087	10,422,568	104,790,599
Financial liabilities					
Deposits by banks	9,728,545	1,388,781	4,451,070	—	15,568,396
Customer accounts	59,006,266	5,913,787	1,129,170	—	66,049,223
Repurchase agreements – non-trading	—	—	—	—	—
Financial liabilities designated at fair value	487,898	1,901,454	6,845,321	—	9,234,673
Debt securities in issue	—	—	595,166	—	595,166
Other financial liabilities	5,671,709	777,657	57,675	—	6,507,041
	74,894,418	9,981,679	13,078,402	—	97,954,499
Loan and other credit-related commitments	44,607,660	—	—	—	44,607,660
Financial guarantees and similar contracts	32,729,438	—	—	—	32,729,438

Cash flows payable by the Bank under financial liabilities by remaining contractual maturities

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years
	AED000	AED000	AED000	AED000	AED000
Deposits by banks	**9,285,078**	**915**	**564,636**	**2,871,895**	**—**
Customer accounts	**70,212,390**	**3,252,688**	**4,112,279**	**196,226**	**—**
Repurchase agreements – non-trading	**1,300,028**	**402,506**	**—**	**157,823**	**—**
Trading liabilities	**1,100,279**	**—**	**—**	**—**	**—**
Financial liabilities designated at fair value	**232,989**	**80,513**	**2,365,128**	**3,881,869**	**30,018**
Derivatives	**6,321,526**	**3,688**	**26,112**	**188,853**	**16,218**
Debt securities in issue	**1,384**	**2,767**	**193,676**	**430,853**	**—**
Other financial liabilities	**2,283,340**	**826,197**	**424,826**	**62,226**	**30,699**
	90,737,014	**4,569,274**	**7,686,657**	**7,789,745**	**76,935**
Loan and other credit-related commitments	**43,218,678**	**—**	**—**	**—**	**—**
Financial guarantees and similar contracts	**34,341,063**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**168,296,755**	**4,569,274**	**7,686,657**	**7,789,745**	**76,935**
Deposits by banks	9,323,680	417,753	1,420,831	4,474,304	—
Customer accounts	52,351,742	6,697,917	5,966,225	1,148,203	—
Repurchase agreements – non-trading	—	—	—	—	—
Trading liabilities	176,269	—	—	—	—
Financial liabilities designated at fair value	—	527,430	2,013,039	7,042,157	—
Derivatives	3,858,659	—	21,374	115,562	13,440
Debt securities in issue	—	5,412	16,235	639,590	—
Other financial liabilities	438,173	3,490,653	777,657	57,675	—
	66,148,523	11,139,165	10,215,361	13,477,491	13,440
Loan and other credit-related commitments	44,607,660	—	—	—	—
Financial guarantees and similar contracts	32,729,438	—	—	—	—
At 31 Dec 2019	143,485,621	11,139,165	10,215,361	13,477,491	13,440

Trading liabilities and trading derivatives have been included in the 'On demand' time bucket, and not by contractual maturity, because trading liabilities are typically held for short periods of time. The undiscounted cash flows on hedging derivative liabilities are classified according to their contractual maturity. The undiscounted cash flows potentially payable under financial guarantee contracts are classified on the basis of the earliest date they can be drawn down.

Further discussion of the Bank's liquidity and funding management can be found in Note 27 'Risk management'.

25 Offsetting of financial assets and financial liabilities

The 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with the Bank and a master netting or similar arrangement is in place with a right to set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right to set off remains appropriate.

	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial Instruments	Non-cash collateral	Cash collateral	Net amount
	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Financial assets							
Derivatives (Note 13)	**6,672,843**	**—**	**6,672,843**	**(5,623,156)**	**(104,865)**	**—**	**944,822**
Reverse repos, securities borrowing and similar agreements classified as:	**7,858,303**	**—**	**7,858,303**	**—**	**(7,858,303)**	**—**	**—**
– loans and advances to banks at amortised cost	**7,858,303**	**—**	**7,858,303**	**—**	**(7,858,303)**	**—**	**—**
Loans and advances to customers	**1,567,972**	**—**	**1,567,972**	**—**	**—**	**(463,343)**	**1,104,629**
At 31 Dec 2020	**16,099,118**	**—**	**16,099,118**	**(5,623,156)**	**(7,963,168)**	**(463,343)**	**2,049,451**
Derivatives (Note 13)	4,067,877	—	4,067,877	(2,932,366)		—	1,135,511
Reverse repos, securities borrowing and similar agreements classified as:	2,724,231	—	2,724,231	—	(2,724,231)	—	—
– loans and advances to banks and customers at amortised cost	2,724,231	—	2,724,231	—	(2,724,231)	—	—
Loans and advances to customers	2,680,069	—	2,680,069	—	—	(451,587)	2,228,482
At 31 Dec 2019	9,472,177	—	9,472,177	(2,932,366)	(2,724,231)	(451,587)	3,363,993
Financial liabilities				—			
Derivatives (Note 13)	**6,556,397**	**—**	**6,556,397**	**(5,623,156)**	**—**	**—**	**933,241**
At 31 Dec 2020	**6,556,397**	**—**	**6,556,397**	**(5,623,156)**	**—**	**—**	**933,241**
Derivatives (Note 13)	3,755,320	—	3,755,320	(2,932,366)	—	—	822,954
At 31 Dec 2019	3,755,320	—	3,755,320	(2,932,366)	—	—	822,954

1 At 31 December 2020, the total amount of 'Loans and advances to customers' was AED 50,971 million (2019: AED 54,300 million), of which AED 1,568 million (2019: AED 2,680 million) was subject to offsetting.

26 Notes on the statement of cash flows

Non-cash items included in profit before tax

	2020	2019
	AED000	AED000
Depreciation, amortisation and impairment	**164,318**	132,497
Share-based payment expense	**26,684**	28,261
Change in expected credit losses and other credit impairment charges	**2,099,999**	389,099
Provisions including pensions	**99,123**	99,819
Other non-cash items included in profit before tax	**11,669**	163,666
	2,401,793	813,342

Change in operating assets

	2020	2019
	AED000	AED000
Change in other assets	**1,132,459**	(853,865)
Change in net trading securities and net derivatives	**(888,335)**	(127,694)
Change in loans and advances to banks and customers	**1,895,130**	9,340,623
Change in reverse repurchase agreements – non-trading	**(2,217,439)**	137,529
	(78,185)	8,496,593

Change in operating liabilities

	2020	2019
	AED000	AED000
Change in other liabilities	**(1,149,436)**	748,771
Change in deposits by banks and customer accounts	**8,844,016**	13,138,446
Change in financial liabilities designated at fair value	**(2,950,830)**	1,658,411
Change in provisions	**25,985**	(52,372)
Change in repurchase agreements – non-trading	**1,860,357**	(11,018)
	6,630,092	15,482,238

Cash and cash equivalents

	2020	2019
	AED000	AED000
Cash and balances at central banks	**1,397,105**	6,801,242
Items in the course of collection from other banks	**94,741**	96,665
Loans and advances to banks of one month or less	**17,410,972**	6,956,987
Reverse repurchase agreement with banks of one month or less	**1,988,483**	212,406
Net settlement accounts	**191,709**	(1,879,371)
Treasury bills, other bills and certificates of deposit less than three months	**735,733**	—
Less: items in the course of transmission to other banks	**(230,418)**	(438,173)
Total cash and cash equivalents	**21,588,325**	11,749,756

27 Risk management

All the Bank’s activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks that the Bank is exposed to are retail and wholesale credit risk (including cross-border country risk), market risk (predominantly foreign exchange and interest rate risks), liquidity, funding risk and strategic risk (including reputational risk and pension risks). The Bank is also exposed to non-financial risk in various forms (including Resilience risk, Financial Crime and Fraud Risk, People risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting, Tax risks and Model Risks).

Risk governance and ownership

An established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at the Bank and global business level. The risk management framework applies to all the types of risk we face, ensures we manage risk consistently across the Bank and ensures we identify risks, have sufficient controls in place to manage them and grow the Bank's business safely, within the Bank's appetite as well as deliver fair outcomes for customers and maintain the orderly and transparent operation of financial markets.

The HBME Board has ultimate responsibility for the effective management of risk and approves the HBME’s risk appetite framework, plans and performance targets for the group and its principal operating subsidiaries, the appointment of senior officers, the delegation of authorities for credit and other risks. The HBME Audit and Risk Committees are responsible for advising the HBME Board on material risk matters and providing non-executive oversight of risks. Under authority delegated by the HBME Board and the HBME Risk Management Meeting (‘Regional RMM’), the separately convened Country Risk Management Meeting (‘UAE RMM’) chaired by the UAE Chief Risk Officer ('CRO') (who reports to MENAT CRO) formulates high-level risk management policy and oversees the implementation of risk appetite and controls. The UAE RMM together with the UAE Asset and Liability Committee (‘ALCO’) and UAE Financial Crime Risk Management Committee (‘FCRMC’) monitors all categories of risk, receives reports on actual performance and emerging issues, determines action to be taken and reviews the efficacy of the Bank’s risk management framework.

Supported by the UAE RMM, the UAE CRO, who reports to the UAE Chief Executive Officer (‘CEO’) and functionally to the MENAT CRO, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework for the UAE. The MENAT CRO, who reports to the Chief Executive Officer (‘CEO’) and functionally to the Group CRO in the HSBC Group, heads the Risk Function, which is independent from the global businesses and forms part of the second line of defence. The executive accountability for the management of financial crime risk resides with the Chief Compliance Officer.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All the Bank's people have a role to play in identifying and managing risk within the scope of their roles. These roles are defined using the three lines of defence model. The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them. The second line of defence challenges the first line of defence on effective risk management and provides advice and guidance in relation to risk. The third line of defence is the internal audit .

Risk appetite

Risk appetite, a key component of the Bank’s risk management framework, is approved by the HBME Board and defines the types and levels of risk that the Bank is willing to take in order to achieve its strategic objectives. The Bank's risk appetite is set out in the Bank’s Risk Appetite Statement and is central to the annual planning process. The risk appetite statement consists of qualitative and quantitative metrics covering financial and non-financial risk.

Measurements against the metrics serve to:

- guide underlying business activity, ensuring it is aligned to Risk Appetite Statements;
- determine risk-adjusted remuneration;
- enable the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identify business decisions needed to mitigate risk.

Top and emerging risks

The Bank uses a top and emerging risks process to provide a forward-looking view of issues that have the potential to threaten the execution of the group’s strategy or operations over the medium to long term. We proactively assess the internal and external risk environment, as well as review the themes identified across our countries and global businesses, for any risks that may require global escalation, updating our top and emerging risks as necessary.

The Bank defines a ‘top risk’ as a thematic issue that may form and crystallise within one year, and that has the potential to materially affect the group's financial results, reputation or business model. It may arise across any combination of risk types, regions or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place. Stress tests of varying granularity may also have been carried out to assess the impact.

An ‘emerging risk’ is a thematic issue with large unknown components that may form and crystallise beyond a one-year time horizon. If it were to materialise, it could have a material effect on the Bank’s long-term strategy, profitability and reputation. Existing mitigation plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage. Some high-level analysis and/or stress testing may have been carried out to assess the potential impact.

Our current top and emerging risks are described in the Additional Information section of the *Financial Statements 2020* on Page 66.

Stress testing and recovery planning

Stress testing is used to inform the level of adequate capital and liquidity to withstand external shocks, such as adverse macroeconomic or geopolitical events, failure at country, sector and counterparty levels or internal events including a variety of projected major operational risk events. Stress testing results are used by management to inform risk mitigation actions and support appropriate allocation of financial resources.

The Bank is included in the annual Group stress test submitted to the Bank of England as well as the Group Internal Stress Test. In addition, the Bank conducts regular macroeconomic and event-driven scenario analyses specific to the entity (‘Enterprise Wide Stress

Tests'). The Bank is subject to regulatory stress testing by the Central Bank of the UAE. These have increased both in frequency and in the granularity of information required by supervisors. Assessment by regulators is on both quantitative and qualitative bases, the latter focusing on portfolio quality, data provision, stress testing capability, forward-looking capital management processes and internal management processes.

Apart from the aforementioned Enterprise Wide Stress Tests the Bank also undertakes Reverse Stress Testing, which is conducted to examine a set of potential scenarios that may render the Bank's business model non-viable. Non-viability might occur before the Bank's capital is depleted, and could result from a variety of events, including idiosyncratic or systemic events or combinations thereof. Reverse stress testing is used to strengthen our resilience by helping to inform early-warning triggers, management actions and contingency plans designed to mitigate the potential stresses and vulnerabilities which we might face.

The results of aforementioned stress tests feed into the regional recovery plan and forms a part of the Bank's Internal Capital Adequacy Assessment Process submission to the regulator.

Risk culture

The Bank's strong risk governance reflects the importance placed by the HBME Board on managing risks effectively. It is supported by a clear policy framework of risk ownership and by the accountability of all employees for identifying, assessing and managing risks within the scope of their assigned responsibilities. This personal accountability, reinforced by the governance structure, experience and mandatory learning, helps to foster a disciplined and constructive culture of risk management and control throughout the Bank and one that supports and encourages the behaviours of good judgement, speaking-up and accountability.

Areas of special interest

Covid-19

2020 has been marked by unprecedented global economic events as a result of the Covid-19 pandemic. The impact of the pandemic has materially contributed to a AED 1,628 million increase in credit impairment charges with AED 2,017 million recorded in the income statement in 2020 compared to AED 389 million in 2019 during more benign credit conditions. Of the total increase, AED 682 million is in respect of Stage 1 and Stage 2 expected credit loss ('ECL'), AED 917 million in respect of Wholesale Stage 3 ECL (a majority of which were not Covid-19 related) and the remainder in respect of Retail Stage 3 ECL and other credit impairment charges. The outlook for ECL is highly uncertain and remains dependent on the future path of the Covid-19 outbreak, including the successful deployment of vaccination programmes, and the credit quality of our loan portfolio as government stimulus and support is withdrawn.

Stage 1 and 2 ECL is estimated for our credit portfolios by taking into account relevant information about past events, current conditions and forecasts of future conditions. The deterioration in the forward economic outlook as a result of Covid-19 has led to a significant increase in Stage 1 and Stage 2 ECL in 2020. In light of the rapid spread of Covid-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty. Restrictions on mobility implemented by governments the world over to limit the spread of the coronavirus resulted in a significant weakening in GDP in all our markets as well as lower oil prices, key inputs used for calculating ECL. Countries and sectors have rebounded to differing levels from their previous low points and economic consensus forecasts have stabilized in recent months, with a 'V' shaped recovery still predicted for 2021, however there is a wide dispersion in forecasts and these have yet to incorporate fully the adverse effect of the recent rising infection rates and renewed lockdowns in a number of countries as well as the positive effects of the roll-out of vaccines. Not withstanding the potential for recovery in 2021, GDP levels are unlikely to return to pre-Covid-19 levels until later years.

Wholesale Stage 3 ECLs are losses recognised for individual customer exposures that are in default and for which there is little prospect of future recovery. The impact of the pandemic has led to an increase in Wholesale Stage 3 ECL, however there have also been credit impairments due to factors not directly related to Covid-19, including significant charges in the UAE in respect of a customer in the Health Care sector and a customer in the Services sector. There remain significant uncertainties in assessing the duration and impact of the Covid-19 impact and it may lead to significant ECL charges on specific exposures which may not be fully captured in ECL estimates.

In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges. As the external environment remains challenging and fraudulent activity is more prevalent, we are working to enhance our financial risk management tools and capabilities to help with the detection of financial statement misrepresentation and trade finance loan abuse.

The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have impacted the performance of financial models used to calculate ECL. This has required more ongoing monitoring and testing, the recalibration of some models and it has also resulted in management judgmental adjustments made to our ECL provisions. There is a risk that future actual results may differ from such judgments and assumptions.

Throughout the outbreak, we have continued to support our customers and have adapted our operational processes. Our business continuity responses have been successfully implemented and we have maintained high levels of service to our customers through this time. The implementation of large-scale changes to our procedures in a short period of time has led to increased operational risk, including conduct, fraud, legal and reputational risks, but no significant incidents have occurred to date. We continue to monitor the situation closely.

The Bank's balance sheet and liquidity has remained strong which has allowed us to support our customers during this period.

Central Bank of UAE Targeted Economic Support Scheme ('TESS')

Under the TESS, the Central Bank of UAE has facilitated the provision of temporary relief from the payments of principal and/or interest on outstanding loans for all affected private sector corporates, SMEs and individuals with specific conditions ('Customer deferrals'). Similar schemes have been initiated by regulators in other HBME countries.

The UAE Banking Regulators have issued Joint Guidance on the treatment of expected credit loss provisions in the context of the Covid-19 crisis (the 'Joint Guidance'). Based on the Joint Guidance, we have grouped customers that have received payment deferrals within and outside the TESS as follows:

i. those that are temporarily and mildly impacted by Covid-19 ('Group 1'). Group 1 clients are not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the Covid-19 crisis.

ii. those that are significantly impacted by Covid-19 ('Group 2'). Group 2 clients are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

Gross loans and advances and deferral amounts to customers by industry sector

	Loans and advances to customers				ECL on loans and advances to customers		Customer deferral			
							Group 1		Group 2	
	Total gross loans	Deferral amount[1]	% of gross loans[2]	Exposure at default	Total ECL[3]	Of which ECL adjustments[4]	Deferral amount	ECL[5]	Deferral amount	ECL[5]
At 31 Dec 2020	AED000	AED000			AED000	AED000	AED000	AED000	AED000	AED000
Personal										
– residential mortgages	6,762,464	81	–	9,354	(140,051)	*5,847*	66	–	15	–
– other personal	4,252,070	1,495	0.04	14,143	(598,665)	*3,750*	944	95	547	301
	11,014,534	1,576	0.01	23,497	(738,716)	*9,597*	1,010	95	562	301
Corporate and commercial										
– commercial, industrial and international trade	22,349,333	213,020	0.95	666,140	(1,373,666)	*(384,283)*	90,388	1,675	122,632	7,683
– commercial real estate and other property-related	7,614,711	358,337	4.71	1,838,020	(1,190,375)	*8,153*	70,002	3,107	288,339	11,730
– government	4,931,832	–	–	–	(6,508)	–	–	–	–	–
– other commercial	8,863,187	45,987	0.52	621,527	(1,110,892)	–	41,984	2,115	4,003	136
	43,759,063	617,344	1.41	3,125,687	(3,681,441)	*(376,130)*	202,374	6,897	414,974	19,549
Financial										
– non-bank financial institutions	626,002	–	–	–	(8,777)	–	–	–	–	–
Total	55,399,599	618,920	1.12	3,149,184	(4,428,934)	*(366,533)*	203,384	6,992	415,536	19,850

1 *This is the deferral amount provided to customers in the UAE in accordance with the Joint Guidance. The total amount of gross loans subject to deferral were AED 3,096 million, representing an Exposure at Default of AED 3,151 million.As of 31 December 2020, HBME UAE has availed AED 440 million out of the total TESS facility of AED 1.7 billion provided by the UAE Central Bank.*
2 *This is calculated as a percentage of deferral amount to total gross loans.*
3 *Total ECL includes Stage 1 and 2 ECL of AED 986 million and Stage 3 ECL of AED 3,443 million.*
4 *These are expert credit adjustments made to the model output and have been necessary to reflect management's best estimate of ECL in accordance with IFRS 9 and the Joint Guidance.*
5 *The ECL amount relates to the deferred instalments and has been computed on a pro-rata basis based on the ECL on the total outstanding facility amount.*

Change in gross loans and advances and ECL to customers by industry sector

	Gross carrying value			Expected credit losses		
	31 Dec 2020	31 Dec 2019		**31 Dec 2020**	31 Dec 2019	
At 31 Dec 2020	**AED000**	AED000	**% change**	**AED000**	AED000	**% change**
Personal						
– residential mortgages	**6,762,464**	7,056,739	**(4.17)**	**(140,051)**	(216,766)	**(35.39)**
– other personal	**4,252,070**	5,370,392	**(20.82)**	**(598,665)**	(443,484)	**34.99**
	11,014,534	12,427,131	**(11.37)**	**(738,716)**	(660,250)	**11.88**
Corporate and commercial						
– commercial, industrial and international trade	**22,349,333**	23,781,227	**(6.02)**	**(1,373,666)**	(983,966)	**39.61**
– commercial real estate and other property-related	**7,614,711**	8,178,547	**(6.89)**	**(1,190,375)**	(1,078,554)	**10.37**
– government	**4,931,832**	5,393,572	**(8.56)**	**(6,508)**	(1,572)	**313.99**
– other commercial	**8,863,187**	7,163,391	**23.73**	**(1,110,892)**	(340,922)	**225.85**
	43,759,063	44,516,737	**(1.70)**	**(3,681,441)**	(2,405,014)	**53.07**
Financial						
– non-bank financial institutions	**626,002**	448,758	**39.50**	**(8,777)**	(26,471)	**(66.84)**
Total	**55,399,599**	57,392,626	**(3.47)**	**(4,428,934)**	(3,091,735)	**43.25**
Exposure at default	**52,435,279**	55,469,532	**(5.47)**	**N/A**	N/A	**N/A**

Clients benefiting from deferrals – UAE			Number of clients deferred	Payment deferrals	Exposure	Impairment Allowance
At 31 Dec 2020				AED000	AED000	AED000
Segment	**Stage**	**Group**				
Retail banking	Stage 1	Group 1	65	837	17,308	191
		Group 2	–	–	–	–
	Total Stage 1		65	837	17,308	191
	Stage 2	Group 1	19	176	999	433
		Group 2	75	540	4,686	2,277
	Total Stage 2		94	716	5,685	2,710
	Stage 3	Group 1	–	–	–	–
		Group 2	2	22	665	169
	Total Stage 3		2	22	665	169
Total retail banking			161	1,575	23,658	3,070
Wholesale banking	Stage 1	Group 1	4	120,473	415,657	14,683
		Group 2	1	54,155	232,837	2,450
	Total Stage 1		5	174,628	648,494	17,133
	Stage 2	Group 1	10	81,897	758,338	30,423
		Group 2	17	292,081	1,597,126	98,798
	Total Stage 2		27	373,978	2,355,464	129,221
	Stage 3	Group 1	–	–	–	–
		Group 2	5	68,738	68,738	9,824
	Total Stage 3		5	68,738	68,738	9,824
Total wholesale banking			37	617,344	3,072,696	156,178

ECL movement during the year

	Not credit impaired		Impaired		
	Stage 1	Stage 2	Stage 3	POCI	Total
At 31 Dec 2020	AED000	AED000	AED000	AED000	AED000
Personal					
ECL allowance as of start of year	89,354	158,945	413,411	–	661,710
Credit Cards	(7,076)	140,645	5,716	–	139,285
Residential Mortgages	2,313	17,121	(93,267)	–	(73,833)
Personal Loans	651	20,348	(11,549)	–	9,450
Auto Loans	(106)	857	(2,703)	–	(1,952)
Others	2,446	5,186	(835)	–	6,797
ECL allowance as of end of year	87,582	343,102	310,773	–	741,457
Corporate and commercial					
ECL allowance as of start of year	142,571	116,971	2,173,372	28,497	2,461,411
Federal Government	40	–	–	–	40
Emirates Governments	3,798	19,791	–	–	23,589
GREs (Gov ownership >50%)	(4,892)	72,316	–	(12,738)	54,686
Other Corporates	29,072	267,105	929,521	(157)	1,225,541
High Net Worth Individuals	(1,277)	(96)	(2,772)	–	(4,145)
SMEs	698	4,781	42,470	–	47,949
Banks	1,102	750	–	–	1,852
NBFI	(1,237)	10,411	(25,964)	–	(16,790)
Others	–	–	–	–	–
ECL allowance as of end of year	169,875	492,029	3,116,627	15,602	3,794,133

ECL adjustments[1]

	Non-Covid related ECL adjustments	Covid related ECL adjustments	Total ECL adjustments
As at 31 Dec 2020	AED000	AED000	AED000
Retail banking loans:			
Housing Loans	5,847	–	5,847
Personal Loans	–	3,750	3,750
Total retail banking loans	5,847	3,750	9,597
Wholesale banking loans:			
Non-government obligors	–	(376,130)	(376,130)
Total wholesale banking loans	–	(376,130)	(376,130)

1 *These are expert credit adjustments made to the model output and have been necessary to reflect management's best estimate of ECL in accordance with IFRS 9 and the Joint Guidance.*

Ibor transition

Regulators and central banks in various jurisdictions have convened national working groups ('NWGs') to identify replacement rates for the Ibors that will not be used beyond 2021 and, where appropriate, to facilitate an orderly transition to these rates.

Given the current lack of alternatives, the group has contracts referencing Ibors with maturities beyond 2021. The group is part of HSBC Group's Ibor transition programme with the objective of facilitating an orderly transition from Ibors for the group and its clients. This global programme oversees the transition by each of the global businesses and is led by the Group Chief Risk Officer. The programme is currently focussed on developing alternative rate products, and the supporting processes and systems, that reference the NWG-selected replacement rates and making them available to customers. The programme is concurrently developing the capability to transition, through repapering, outstanding Ibor contracts.

Substantial change has been undertaken to develop products that reference the replacement rates and enable the transition of legacy Ibor contracts which exposes the group to material execution, financial and non-financial risks. Throughout 2020, the Ibor transition programme has continued to implement the required IT and operational changes necessary for an orderly transition from demising Ibors to the replacement near risk free rates ('RFRs').

Development of alternative rate product capabilities

All global businesses are actively developing and implementing system and operational capabilities for alternative rates products. These developments have additionally enabled the removal of Ibor related products from sale to reduce the associated risks. Ibor sales continue however exposures relating to post-2021 maturities are expected to reduce as a result of new product availability and as market liquidity builds in alternative RFRs.

Our businesses continue to develop their capabilities to offer Risk-free rates ('RFR') based products and the supporting processes and systems. Covid-19 has impacted the speed with which we are able to develop these capabilities and many of our customers' readiness to adopt RFR-based products. Consequently, the sale of Ibor contracts with maturities beyond 2021 (legacy contracts) will continue for longer than initially anticipated and is likely to increase the volume of legacy contracts that will need to be transitioned.

Transition legacy contracts

In addition to offering new alternative rate based products, the new product capabilities will also help enable the transition of outstanding Ibor products. The Bank has begun to engage clients to determine their ability to transition in line with the readiness of the alternative rate product availability. Covid-19 may have affected the ability of clients to transition early and could result in compressed timelines for Ibor transition. Therefore, development and use of appropriate migration tools, and industry initiatives such as the International Swaps and Derivatives Association ('ISDA') protocol will be necessary to enable a more ordered transition coupled with legislative approaches for the products which are structurally difficult to transition.

In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, thus potentially increasing the level of conduct and operational risks. Our plans are being adjusted to reflect both the greater effort required and associated risks.

In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the Bank to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships. Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in Ibor-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of Ibor with alternative reference rates. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

Mitigating actions

- The global Ibor transition programme is in place to facilitate an orderly transition to replacement rates for our business and our clients and is overseen by the HSBC Group Chief Risk Officer.
- Development of, and transition to alternative rate products is supported by extensive training, communication and client engagement to facilitate appropriate selection of products.
- IT and operational change is being implemented to enable a longer transition window.
- Business line risks have been assessed and are dynamically monitored and overseen, with specific mitigation linked to programme deliverables.
- We continue to actively engage with regulatory and industry bodies to mitigate risks relating to hedge accounting changes, multiple loan conventions, and contracts that are unable to transition.

Financial instruments impacted by Ibor reform

Amendments to IFRSs issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to an amortised cost financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The Bank has adopted the amendments from 1 January 2020.

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD Libor	GBP Libor	JPY Libor	Others
At 31 Dec 2020	AED000	AED000	AED000	AED000
Non-derivative financial assets	15,726,214	38,302	–	–
Non-derivative financial liabilities	3,618,494	–	–	–
Derivative notional contract amount	101,931,534	–	–	–

The amounts in the above table relate to the Bank's main operating entities and provide an indication of the extent of the Bank's exposure to the Ibor benchmarks which are due to be replaced. Amounts are in respect of the financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 31 December 2021, the date by which Libor is expected to cease;
- are recognised on the bank's balance sheet.

The administrator of Libor, ICE Benchmark Administration ('IBA'), has announced a proposal to extend the publication date of most USD Libor tenors until 30 June 2023. Publication of one week and two month tenors will cease after 31 December 2021. This proposal, if endorsed, would moderately reduce the amounts presented in the above table as some financial instruments included will reach their contractual maturity date prior to 30 June 2023.

Credit risk

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and credit derivatives. Credit risk generates the largest regulatory capital requirement of the risks the Bank incurs.

We have implemented HSBC Group wide credit risk management and related IFRS9 processes. We continue to assess actively the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit approval authorities are delegated by the Board to the group CEO and with the authority to sub-delegate them. The Credit Risk sub-function is headed by the CRO and is responsible for key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

- To maintain a strong culture of responsible lending, and robust risk policies and control frameworks.
- To both partner and challenge our business in defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- To ensure there is independent, expert scrutiny of credit risk, their costs and their mitigation.

IFRS9 Financial Instruments Process

We have established IFRS9 modelling and data processes which are subject to internal model risk governance including independent review of significant model developments. A centralized impairment engine performs the expected credit loss ('ECL') calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralized manner. Management review forums with representatives from Credit Risk and Finance are established in order to review and approve the impairment results.

Concentration of exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimize undue concentration of exposure in our portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls and stress testing.

Credit quality of financial instruments

The Bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly. Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

Special attention is paid to problem exposures in order to accelerate remedial action. Where appropriate, the Bank uses specialist units to provide customers with support in order to help them avoid default wherever possible.

Periodic risk-based audits of the Bank's credit processes and portfolios are also undertaken by an independent function.

Renegotiated loans and forbearance

'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. A loan is classified as 'renegotiated' when we modify the contractual payment terms on concessionary terms because we have significant concerns about the borrower's ability to meet contractual payments when due. Non-payment-related concessions (e.g.covenant waivers), while potential indicators of impairment, do not trigger identification as renegotiated loans. Loans that have been identified as renegotiated retain this designation until maturity or derecognition.

On execution of renegotiation, the loan will also be classified as credit impaired if it is not already so classified. In wholesale lending, all facilities with a customer including loans that have not been modified are considered credit impaired following the identification of a renegotiated loan until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. Personal renegotiated loans generally remain credit impaired until repayment, write-off or derecognition.

For retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans are typically assessed individually and take into account the higher risk of the future non-payment inherent in renegotiated loans.

Impairment Assessment

It is the Bank's policy to create allowances for impaired loans promptly and consistently.

For details of impairment policies on loans and advances and financial investments, see Note 2.2(i) on the Financial Statements.

Write-off of loans and advances

Loans are normally written off, either partially or in full, when there is no realistic prospect of further recovery. For secured loans, write-off generally occurs after receipt of any proceeds from the realisation of security.

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due, the standard period being the end of the month in which the account becomes 180 days contractually delinquent. Write-off periods may be extended, generally to no more than 360 days past due. However, in exceptional circumstances, they may be extended further, in countries where local regulation or legislation constrain earlier write-off, or where the realisation of collateral for secured real estate lending extends to this time.

In the event of bankruptcy or analogous proceedings, write-off may occur earlier than at the periods stated above. Collections procedures may continue after write-off.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

The IFRS 9 allowance for ECL has increased from AED 3,146 million at 31 December 2019 to AED 4,557 million at 31 December 2020.

The IFRS 9 allowance for ECL at 31 December 2020 comprises AED 4,455 million (2019: AED 3,118 million) in respect of assets held at amortised cost and AED 103 million (2019: AED 28 million) in respect of loan commitments and financial guarantees.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

	31 Dec 2020		31 Dec 2019	
	Gross carrying/nominal amount	**Allowance for ECL**	Gross carrying/nominal amount	Allowance for ECL
	AED000	**AED000**	AED000	AED000
Loans and advances to customers at amortised cost	**55,399,599**	**(4,428,934)**	57,392,626	(3,092,285)
Loans and advances to banks at amortised cost	**21,403,496**	**(4,160)**	11,399,027	(2,589)
Other financial assets measured at amortised costs	**10,347,678**	**(21,402)**	12,688,287	(23,541)
– cash and balances at central banks	**1,397,105**	**–**	6,801,242	–
– items in the course of collection from other banks	**94,741**	**–**	96,665	–
– reverse repurchase agreements – non - trading	**6,717,643**	**–**	2,724,231	(103)
– prepayments, accrued income and other assets	**2,138,189**	**(21,402)**	3,066,149	(23,438)
Total gross carrying amount on-balance sheet	**87,150,773**	**(4,454,496)**	81,479,940	(3,118,415)
Loans and other credit related commitments	**17,639,876**	**(59,127)**	18,128,593	(13,418)
Financial guarantees	**2,035,952**	**(43,370)**	2,441,836	(14,830)
Total nominal amount off-balance sheet	**19,675,828**	**(102,497)**	20,570,429	(28,248)

	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	AED000	**AED000**	AED000	AED000
Debt instruments measured at fair value through other comprehensive income (FVOCI)	**31,236,457**	**(1,614)**	32,926,634	(729)

1 *In 2019, the Bank has aligned the disclosure to the HSBC Group approach which is to include commitments and financial guarantees within the scope of IFRS 9. Prior period has been re-presented accordingly and this has been reflected through all relevant disclosures in Note 27.*

The following table provides an overview of the Bank's credit risk by stage, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

POCI: Purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2020

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
Loans and advances to customers at amortised cost	**34,257,152**	**16,075,356**	**5,003,302**	**63,789**	**55,399,599**	**(223,346)**	**(762,592)**	**(3,427,394)**	**(15,602)**	**(4,428,934)**
Loans and advances to banks at amortised cost	**21,148,103**	**255,393**	**–**	**–**	**21,403,496**	**(3,256)**	**(904)**	**–**	**–**	**(4,160)**
Other financial assets measured at amortised cost	**10,138,539**	**188,493**	**20,646**	**–**	**10,347,678**	**(2,945)**	**(2,758)**	**(15,699)**	**–**	**(21,402)**
Loan and other credit-related commitments	**15,502,483**	**1,953,165**	**184,228**	**–**	**17,639,876**	**(24,075)**	**(35,052)**	**–**	**–**	**(59,127)**
Financial guarantees	**1,240,643**	**761,863**	**33,446**	**–**	**2,035,952**	**(6,781)**	**(36,583)**	**(6)**	**–**	**(43,370)**
At 31 Dec 2020	**82,286,920**	**19,234,270**	**5,241,622**	**63,789**	**106,826,601**	**(260,403)**	**(837,889)**	**(3,443,099)**	**(15,602)**	**(4,556,993)**

	ECL coverage %				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	%	**%**	**%**	**%**	**%**
Loans and advances to customers at amortised cost:	**0.7**	**4.7**	**68.5**	**24.5**	**8.0**
Loans and advances to banks at amortised cost	**–**	**0.4**	**–**	**–**	**–**
Other financial assets measured at amortised cost	**–**	**1.5**	**76.0**	**–**	**(0.2)**
Loan and other credit-related commitments	**0.2**	**1.8**	**–**	**–**	**0.3**
Financial guarantees	**0.5**	**4.8**	**–**	**–**	**2.1**
At 31 Dec 2020	**0.3**	**4.4**	**65.7**	**24.5**	**4.3**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2019

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Loans and advances to customers at amortised cost	49,446,365	3,942,979	3,970,661	32,621	57,392,626	(212,315)	(264,696)	(2,586,777)	(28,497)	(3,092,285)
Loans and advances to banks at amortised cost	11,361,211	37,816	–	–	11,399,027	(2,376)	(213)	–	–	(2,589)
Other financial assets measured at amortised cost	12,430,853	235,807	21,627	–	12,688,287	(1,043)	(871)	(21,627)	–	(23,541)
Loan and other credit related commitments	17,365,800	739,391	23,402	–	18,128,593	(11,822)	(1,596)	–	–	(13,418)
Financial guarantees	2,147,982	265,024	28,830	–	2,441,836	(5,415)	(9,409)	(6)	–	(14,830)
At 31 Dec 2019	92,752,211	5,221,017	4,044,520	32,621	102,050,369	(232,971)	(276,785)	(2,608,410)	(28,497)	(3,146,663)

	ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total
	%	%	%	%	%
Loans and advances to customers at amortised cost	0.4	6.7	65.1	87.4	5.4
Loans and advances to banks at amortised cost	–	0.6	–	–	–
Other financial assets measured at amortised cost	–	0.4	100.0	–	0.2
Loan and other credit related commitments	0.1	0.2	–	–	0.1
Financial guarantees	0.3	3.6	–	–	0.6
At 31 Dec 2018	0.3	5.3	64.5	87.4	3.1

Measurement uncertainty and sensitivity analysis of ECL estimates

Expected credit loss impairment allowances recognised in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios described below. The recognition and measurement of ECL involves the use of significant judgement and estimation. It is necessary to formulate multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses and probability weight the results to determine an unbiased ECL estimate. The Bank uses a standard framework to form economic scenarios to reflect assumptions about future economic conditions, supplemented with the use of management judgement, which may result in using alternative or additional economic scenarios and/or management adjustments.

Methodology for Developing Forward Looking Economic Scenarios

The Bank has adopted the use of multiple economic scenarios to reflect assumptions about future economic conditions starting with three economic scenarios, based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management's judgement, the consensus forecast distribution does not adequately capture the relevant risks.

The three economic scenarios represent the 'most likely outcome' (the Central scenario), and two less likely outcomes, referred to as the Upside and Downside scenarios. In normal circumstances, each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%, according to the decision of the Bank's senior management. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. Key economic assumptions in the Central scenario are set using the average of forecasts of external economists, helping to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the Central scenario, the Bank sets key economic assumptions such as GDP growth and oil price using either the average of external economist forecasts (commonly referred to as consensus forecasts) for most economies, or market prices. An external provider's global macro model, conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This external provider is subject to the Bank's risk governance framework, with oversight by a specialist internal unit.

The Upside and Downside scenarios are designed to be cyclical, in that assumptions such as GDP growth usually revert back to the Central scenario after the first three years for major economies. We determine the maximum divergence of GDP growth from the Central scenario using the 10th and the 90th percentile of the entire distribution of forecast outcomes for major economies. We use externally available forecast distributions to help ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks captured in the Bank's Top and Emerging Risks. This ensures that scenarios remain consistent with the more qualitative assessment of these risks. We project additional variable paths using the external provider's global macro model.

Additional scenarios are created and probability weightage assigned to each scenario are revisited, as required, to address those forward-looking risks that management considers are not adequately captured by the consensus.

In light of the current uncertain economic environment, an alternative Downside scenario ('Additional Downside') has been included and the scenario weighting has been re-assessed to reflect management's view of extreme risks. Central scenario has been assigned a weighting of 65%, the Downside scenario 25% and the Upside and Additional Downside 5% each, according to the decision of the Bank's senior management.

Description of Consensus Economic Scenarios

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario for the UAE.

Central scenario (2021Q1–2025Q4)

	UAE
Probability (%)	**65**
GDP growth rate (%)	
2020: Annual average growth rate	**(6.3)**
2021: Annual average growth rate	**3.0**
2022: Annual average growth rate	**3.6**
2023: Annual average growth rate	**3.9**
5-year average	**3.4**
Oil price (US$)	
2020: Oil price	**42.2**
2021: Oil price	**44.3**
2022: Oil price	**45.7**
2023: Oil price	**47.0**
5-year average	**45.9**
House price growth (%)	
2020: Annual average growth rate	**(11.6)**
2021: Annual average growth rate	**(9.8)**
2022: Annual average growth rate	**(1.3)**
2023: Annual average growth rate	**2.6**
5-year average	**–**

The following table describes the probabilities assigned in the consensus Upside scenario, consensus Downside scenario and Additional Downside scenario, the key macroeconomic variables for each scenario and the largest quarterly measure observed for each variable over the forecast period. The Additional Downside scenario features a global recession and has been created to reflect management's view of severe risks.

Outer scenarios (less likely)

	UAE		
	Consensus Upside scenario	Consensus Downside scenario	Additional Downside scenario
Probability (%)	**5**	**25**	**5**
GDP growth rate (%)	**13.8 (4Q21)**	**(7.3) (1Q21)**	**(12.2) (1Q21)**
Oil price (US$)	**81.03 (4Q21)**	**26.26 (4Q21)**	**17.31 (1Q22)**
House price growth (%)	**18.5 (1Q22)**	**(19.2) (2Q21)**	**(22.9) (2Q21)**

How economic scenarios are reflected in the wholesale calculation of ECL

HSBC has developed a globally consistent methodology for the application of forward economic guidance into the calculation of ECL by incorporating these scenarios into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, HSBC incorporates forward economic guidance proportionate to the probability-weighted outcome and the central scenario outcome for non-stage 3 populations.

ECL based exposures at 31 December 2020[1]

	UAE	
	2020	2019
Reported ECL (AEDm)[2]	**918**	356
Gross carrying/nominal amount (AEDm)[3]	**164,444**	155,361
Consensus Central scenario	**885**	356
Consensus Upside scenario	**698**	327
Consensus Downside scenario	**1,212**	397
Additional Downside scenario	**1,968**	NA

1 *Excludes ECL and financial instruments relating to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.*
2 *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
3 *Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying amounts but low ECL under all the above scenarios.*

How economic scenarios are reflected in the retail calculation of ECL

HSBC has developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macro-economic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

IFRS 9 ECL sensitivity to future economic conditions[1]

31 December 2020	**UAE**					
AEDm	**Gross carrying amount**	**Reported ECL[2]**	**Central scenario ECL**	**Upside scenario ECL**	**Downside scenario ECL**	**Additional Downside scenario ECL**
Mortgages	**6,939**	**242**	**231**	**195**	**268**	**286**
Credit cards	**1,566**	**338**	**297**	**228**	**393**	**463**
Other	**2,507**	**140**	**136**	**121**	**151**	**169**

31 December 2019	UAE					
AEDm	Gross carrying amount	Reported ECL[2]	Central scenario ECL	Upside scenario ECL	Downside scenario ECL	Additional Downside scenario ECL
Mortgages	7,283	338	338	305	334	NA
Credit cards	1,884	198	198	180	264	NA
Other	3,287	103	103	95	114	NA

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*
2 *ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied.*

Economic scenarios sensitivity analysis of ECL estimates

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward looking economic conditions as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting ECL.

The economic scenarios are generated to capture the group's view of a range of possible forecast economic conditions that is sufficient for the calculation of unbiased and probability-weighted ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. There are a very wide range of possible combinations of inter-related economic factors that could influence actual credit loss outcomes, accordingly the range of estimates provided by attributing 100% weightings to scenarios are indicative of possible outcomes given the assumptions used. A wider range of possible ECL outcomes reflects uncertainty about the distribution of economic conditions and does not necessarily mean that credit risk on the associated loans is higher than for loans where the distribution of possible future economic conditions is narrower. The recalculated ECLs for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures.

Credit exposure

Maximum exposure to credit risk

The Bank's exposure to credit risk is spread across a broad range of asset classes, including derivatives, trading assets, loans and advances to customers, loans and advances to banks, and financial investments.

The following table presents the Bank's maximum exposure to credit risk from on balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

The offset in the table relate to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

In the case of derivatives and reverse repos the offset column also includes collateral received in cash and other financial assets.

Maximum exposure to credit risk

	2020			2019		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
	AED000	**AED000**	**AED000**	AED000	AED000	AED000
Loans and advances to customers held at amortised cost	**50,970,665**	**(463,343)**	**50,507,322**	54,300,341	(451,587)	53,848,754
Loans and advances to banks held at amortised cost	**21,399,336**	**–**	**21,399,336**	11,396,438	–	11,396,438
Reverse repurchase agreements – non-trading	**6,717,643**	**(6,717,643)**	**–**	2,724,128	(2,724,128)	–
Derivatives	**6,672,843**	**(5,728,020)**	**944,823**	4,067,877	(2,932,366)	1,135,511
Total off-balance sheet	**77,332,603**	**–**	**77,332,603**	77,337,098	–	77,337,098
– financial guarantees and similar contracts	**34,173,053**	**–**	**34,173,053**	32,729,438	–	32,729,438
– loan and other credit-related commitments	**43,159,550**	**–**	**43,159,550**	44,607,660	–	44,607,660

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees

The following disclosure provides a reconciliation by stage of the Bank's gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees. Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying customer risk rating ('CRR')/probability of default ('PD') movements of the financial instruments from stage transfers. This is captured, along with other credit quality movements in the 'Net new and further lending/(repayments) and changes in risk parameters' line item. This line also includes changes due to volume movements within the group's lending portfolio.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2020

	Non-credit impaired				**Credit impaired**					
	Stage 1		**Stage 2**		**Stage 3**		**POCI**		**Total**	
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
At 1 Jan 2020	**86,689,623**	**(231,930)**	**4,985,221**	**(275,916)**	**4,022,890**	**(2,586,784)**	**32,621**	**(28,497)**	**95,730,355**	**(3,123,127)**
Transfers of financial instruments:	**(21,958,433)**	**(40,487)**	**19,777,321**	**314,679**	**2,181,112**	**(274,192)**	**–**	**–**	**–**	**–**
– Transfers from Stage 1 to Stage 2	**(31,935,690)**	**203,768**	**31,935,690**	**(203,768)**	**–**	**–**	**–**	**–**	**–**	**–**
– Transfers from Stage 2 to Stage 1	**11,118,177**	**(248,240)**	**(11,118,177)**	**248,240**	**–**	**–**	**–**	**–**	**–**	**–**
– Transfers to Stage 3	**(1,140,920)**	**3,985**	**(1,188,625)**	**291,882**	**2,329,545**	**(295,867)**	**–**	**–**	**–**	**–**
– Transfers from Stage 3			**148,433**	**(21,675)**	**(148,433)**	**21,675**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**71,677**	**–**	**(279,442)**	**–**	**(20,022)**	**–**	**–**	**–**	**(227,787)**
Net new and further lending / (repayments) and changes in risk parameters	**8,402,662**	**(56,600)**	**(5,658,138)**	**(594,452)**	**(333,640)**	**(1,159,216)**	**45,379**	**–**	**2,456,263**	**(1,810,268)**
Assets written off	**–**	**–**	**–**	**–**	**(649,387)**	**649,387**	**(13,860)**	**13,860**	**(663,247)**	**663,247**
Credit related modifications that resulted in derecognition	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign exchange and others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**–**	**(117)**	**–**	**–**	**–**	**(36,574)**	**(351)**	**(965)**	**(351)**	**(37,656)**
At 31 Dec 2020	**73,133,852**	**(257,457)**	**19,104,404**	**(835,131)**	**5,220,975**	**(3,427,401)**	**63,789**	**(15,602)**	**97,523,020**	**(4,535,591)**
ECL release/(charge) for the period	**–**	**15,077**	**–**	**(873,894)**	**–**	**(1,179,235)**	**–**	**–**	**–**	**(2,038,052)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**78,100**	**–**	**–**	**–**	**78,100**
Others	**–**	**–**	**–**	**–**	**–**	**97**	**–**	**–**	**–**	**97**
Total ECL Charge for the period	**–**	**15,077**	**–**	**(873,894)**	**–**	**(1,101,038)**	**–**	**–**	**–**	**(1,959,855)**

	At 31 Dec 2020		Twelve months ended 31 Dec 2020
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	AED000	AED000	AED000
As above	**97,523,020**	**(4,535,591)**	**(1,959,855)**
Other financial assets measured at amortised cost	**2,585,934**	**(21,402)**	**(4,672)**
Performance and other guarantees not considered for IFRS 9			**(51,824)**
Non-trading reverse purchase agreement commitments	**6,717,643**	**–**	**103**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	**106,826,597**	**(4,556,993)**	**(2,016,248)**
Debt instruments measured at FVOCI	**31,236,457**	**(1,614)**	**(819)**
Change in expected credit losses and other credit impairment charges	**N/A**	**(4,558,607)**	**(2,017,067)**

1 *For ECL, this includes net ECL charge on new/further lending, repayments and changes in credit risk parameters.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2019

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2019	91,770,060	(231,062)	5,735,956	(264,340)	4,328,388	(2,813,529)	135,096	(135,096)	101,969,500	(3,444,027)
Transfers of financial instruments:	(972,012)	(61,928)	246,380	226,799	725,632	(164,871)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(7,980,065)	32,613	7,980,065	(32,613)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	7,008,053	(94,602)	(7,008,053)	94,602	–	–	–	–	–	–
– Transfers to Stage 3	–	61	(795,264)	187,668	795,264	(187,729)	–	–	–	–
– Transfers from Stage 3			69,632	(22,858)	(69,632)	22,858	–	–	–	–
Net new and further lending / (repayments) and changes in risk parameters	–	57,525	–	(60,193)	–	(41,745)	–	–	–	(44,413)
Net new and further lending / (repayments)	(4,108,425)	4,231	(997,115)	(178,182)	(199,171)	(206,745)	25,402	(22,992)	(5,279,309)	(403,688)
Assets written off	–	–	–	–	(831,959)	831,959	(129,591)	129,591	(961,550)	961,550
Others	–	(696)	–	–	–	(191,853)	1,714	–	1,714	(192,549)
At 31 Dec 2019	86,689,623	(231,930)	4,985,221	(275,916)	4,022,890	(2,586,784)	32,621	(28,497)	95,730,355	(3,123,127)
ECL release/(charge) for the period	–	61,756	–	(238,375)	–	(248,489)	–	(22,992)	–	(448,100)
Recoveries	–	–	–	–	–	108,217	–	–	–	108,217
Others	–	–	–	–	–	(74)	–	–	–	(74)
Total ECL Charge for the period	–	61,756	–	(238,375)	–	(140,346)	–	(22,992)	–	(339,957)

	At 31 Dec 2019		Twelve months ended 31 Dec 2019
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	AED000	AED000	AED000
As above	95,730,355	(3,123,127)	(339,957)
Other financial assets measured at amortised cost	3,595,781	(23,433)	(9,559)
Performance and other guarantees not considered for IFRS 9			(39,672)
Non-trading reverse purchase agreement commitments	2,724,231	(103)	(74)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	102,050,367	(3,146,663)	(389,262)
Debt instruments measured at FVOCI	32,926,634	(729)	163
Total allowance for ECL/total income statement ECL charge for the period	N/A	(3,147,392)	(389,099)

Wholesale lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2020

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2020	**68,886,496**	**(142,571)**	**4,415,651**	**(116,971)**	**3,359,479**	**(2,173,372)**	**32,621**	**(28,497)**	**76,694,247**	**(2,461,411)**
Transfers of financial instruments:	**(20,866,408)**	**18,167**	**19,025,918**	**70,636**	**1,840,490**	**(88,803)**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**29,466**	**–**	**(204,220)**	**–**	**(19,232)**	**–**	**–**	**–**	**(193,986)**
Net new and further lending / (repayments) and changes in risk parameters	**9,950,901**	**(74,820)**	**(5,376,961)**	**(241,474)**	**(250,900)**	**(1,057,284)**	**45,379**	**–**	**4,368,419**	**(1,373,578)**
Assets written off	**–**	**–**	**–**	**–**	**(258,555)**	**258,555**	**(13,860)**	**13,860**	**(272,415)**	**272,415**
Others	**–**	**(117)**	**–**	**–**	**–**	**(36,492)**	**(351)**	**(965)**	**(351)**	**(37,574)**
At 31 Dec 2020	**57,970,989**	**(169,875)**	**18,064,608**	**(492,029)**	**4,690,514**	**(3,116,628)**	**63,789**	**(15,602)**	**80,789,900**	**(3,794,134)**
ECL release/(charge) for the period	**–**	**(45,354)**	**–**	**(445,694)**	**–**	**(1,076,516)**	**–**	**–**	**–**	**(1,567,564)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**26,443**	**–**	**–**	**–**	**26,443**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total ECL Charge for the period	**–**	**(45,354)**	**–**	**(445,694)**	**–**	**(1,050,073)**	**–**	**–**	**–**	**(1,541,121)**
At 1 Jan 2019	74,535,978	(128,235)	5,025,085	(116,870)	3,452,373	(2,293,759)	135,096	(135,096)	83,148,532	(2,673,960)
Transfers of financial instruments:	(736,685)	(41,318)	305,961	68,672	430,725	(27,354)	–	–	1	–
Net remeasurement of ECL arising from transfer of stage	–	39,214	–	(45,979)	–	(30,870)	–	–	–	(37,635)
Net new and further lending / (repayments) and changes in risk parameters	(4,912,797)	(11,536)	(915,395)	(22,794)	(18,393)	(134,944)	25,402	(22,992)	(5,821,183)	(192,266)
Assets written off	–	–	–	–	(505,226)	505,226	(129,591)	129,591	(634,817)	634,817
Others	–	(696)	–	–	–	(191,671)	1,714	–	1,714	(192,367)
At 31 Dec 2019	68,886,496	(142,571)	4,415,651	(116,971)	3,359,479	(2,173,372)	32,621	(28,497)	76,694,247	(2,461,411)
ECL release/(charge) for the period	–	27,678	–	(68,773)	–	(165,814)	–	(22,992)	–	(229,901)
Recoveries	–	–	–	–	–	32,624	–	–	–	32,624
Others	–	–	–	–	–	–	–	–	–	–
Total ECL Charge for the period	–	27,678	–	(68,773)	–	(133,190)	–	(22,992)	–	(197,277)

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2020

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2020	**17,803,127**	**(89,359)**	**569,570**	**(158,945)**	**663,411**	**(413,411)**	**19,036,108**	**(661,715)**
Transfers of financial instruments:	**(1,092,026)**	**(58,654)**	**751,404**	**244,043**	**340,622**	**(185,389)**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**42,211**	**–**	**(75,222)**	**–**	**(787)**	**–**	**(33,798)**
Net new and further lending / (repayments) and changes in risk parameters	**(1,548,239)**	**18,220**	**(281,177)**	**(352,978)**	**(82,740)**	**(101,932)**	**(1,912,156)**	**(436,690)**
Assets written off	**–**	**–**	**–**	**–**	**(390,832)**	**390,832**	**(390,832)**	**390,832**
Foreign exchange and others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**–**	**–**	**–**	**–**	**–**	**(86)**	**–**	**(86)**
At 31 Dec 2020	**15,162,862**	**(87,582)**	**1,039,797**	**(343,102)**	**530,461**	**(310,773)**	**16,733,120**	**(741,457)**
ECL release/(charge) for the period	**–**	**60,431**	**–**	**(428,200)**	**–**	**(102,719)**	**–**	**(470,488)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**51,657**	**–**	**51,657**
Others	**–**	**–**	**–**	**–**	**–**	**(101)**	**–**	**(101)**
Total ECL Charge for the period	**–**	**60,431**	**–**	**(428,200)**	**–**	**(51,163)**	**–**	**(418,932)**

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2019

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2019	17,234,082	(102,827)	710,871	(147,470)	876,015	(519,770)	18,820,968	(770,067)
Transfers of financial instruments:	(235,327)	(20,610)	(59,581)	158,127	294,907	(137,517)	(1)	—
Net remeasurement of ECL arising from transfer of stage	—	18,311	—	(14,214)	—	(10,875)	—	(6,778)
Net new and further lending / (repayments) and changes in risk parameters	804,372	15,767	(81,720)	(155,388)	(180,778)	(71,800)	541,874	(211,421)
Assets written off	—	—	—	—	(326,733)	326,733	(326,733)	326,733
Others	—	—	—	—	—	(182)	—	(182)
At 31 Dec 2019	17,803,127	(89,359)	569,570	(158,945)	663,411	(413,411)	19,036,108	(661,715)
ECL release/(charge) for the period	—	34,078	—	(169,602)	—	(82,675)	—	(218,199)
Recoveries	—	—	—	—	—	75,593	—	75,593
Others	—	—	—	—	—	2	—	2
Total ECL Charge for the period	—	34,078	—	(169,602)	—	(7,080)	—	(142,604)

Credit quality of financial instruments

The Bank assesses the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of PD, whereas stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and stages 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications defined below each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities.

Credit quality classification

	Debt securities and other bills	Wholesale lending	Retail lending
	External credit rating	Internal credit rating	Internal credit rating[2]
Quality classification			
Strong	**A– and above**	**CRR[1]1 to CRR2**	**Band 1 and 2**
Good	**BBB+ to BBB–**	**CRR3**	**Band 3**
Satisfactory	**BB+ to B and unrated**	**CRR4 to CRR5**	**Band 4 and 5**
Sub-standard	**B– to C**	**CRR6 to CRR8**	**Band 6**
Impaired	**Default**	**CRR9 to CRR10**	**Band 7**

1 *Customer risk rating.*
2 *12-month point-in-time probability weighted probability of default ('PD').*

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good' exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Impaired' exposures have been assessed as impaired. These also include retail accounts classified as Band 1 to Band 6 that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

Risk rating scales

The customer risk rating ('CRR') 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All HSBC customers are rated using the 10- or 23-grade scale, depending on the degree of sophistication of the Basel II approach adopted for the exposure.

Retail lending credit quality is disclosed based on a 12-month point-in-time probability weighted probability of default.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term issue ratings are reported against the long-term rating of the issuer of those securities. If major rating agencies have different ratings for the same debt securities, a prudent rating selection is made in line with regulatory requirements.

Distribution of financial instruments by credit quality at 31 December 2020

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**8,255,070**	**23,509,072**	**16,010,833**	**2,557,533**	**5,067,091**	**55,399,599**	**(4,428,934)**	**50,970,665**
Loans and advances to banks held at amortised cost	**18,717,083**	**2,288,175**	**398,009**	**229**	**—**	**21,403,496**	**(4,160)**	**21,399,336**
Cash and balances at central banks	**1,397,105**	**—**	**—**	**—**	**—**	**1,397,105**	**—**	**1,397,105**
Items in the course of collection from other banks	**94,741**	**—**	**—**	**—**	**—**	**94,741**	**—**	**94,741**
Reverse repurchase agreements – non-trading	**5,647,077**	**157,823**	**912,743**	**—**	**—**	**6,717,643**	**—**	**6,717,643**
Prepayments, accrued income and other assets	**729,854**	**191,780**	**1,170,038**	**25,871**	**20,646**	**2,138,189**	**(21,402)**	**2,116,787**
– endorsements and acceptances	**412,386**	**173,435**	**762,002**	**25,871**	**5,732**	**1,379,426**	**(6,486)**	**1,372,940**
– accrued income and other	**317,468**	**18,345**	**408,036**	**—**	**14,914**	**758,763**	**(14,916)**	**743,847**
Debt instruments measured at fair value through other comprehensive income[24]	**31,135,189**	**—**	**—**	**—**	**—**	**31,135,189**	**(1,614)**	**31,133,575**
Out-of-scope for IFRS 9								
Trading assets	**2,260,618**	**98,423**	**364,944**	**—**	**—**	**2,723,985**	**—**	**2,723,985**
Derivatives	**5,902,645**	**367,491**	**235,077**	**155,988**	**11,642**	**6,672,843**	**—**	**6,672,843**
Total gross carrying amount on balance sheet	**74,139,382**	**26,612,764**	**19,091,644**	**2,739,621**	**5,099,379**	**127,682,790**	**(4,456,110)**	**123,226,680**
Percentage of total credit quality	**58%**	**21%**	**15%**	**2%**	**4%**	**100%**		**100%**
Loan and other credit related commitments	**8,300,151**	**6,082,291**	**2,940,073**	**133,135**	**184,227**	**17,639,877**	**(59,127)**	**17,580,750**
Financial guarantees	**495,463**	**616,267**	**850,807**	**39,969**	**33,446**	**2,035,952**	**(43,370)**	**1,992,582**
Total nominal amount off balance sheet	**8,795,614**	**6,698,558**	**3,790,880**	**173,104**	**217,673**	**19,675,829**	**(102,497)**	**19,573,332**
At 31 Dec 2020	**82,934,996**	**33,311,322**	**22,882,524**	**2,912,725**	**5,317,052**	**147,358,619**	**(4,558,607)**	**142,800,012**
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	21,705,730	10,926,770	17,616,936	3,139,908	4,003,282	57,392,626	(3,092,285)	54,300,341
Loans and advances to banks held at amortised cost	10,001,502	1,229,516	111,770	56,239	—	11,399,027	(2,589)	11,396,438
Cash and balances at central banks	6,801,242	—	—	—	—	6,801,242	—	6,801,242
Items in the course of collection from other banks	96,665	—	—	—	—	96,665	—	96,665
Reverse repurchase agreements – non-trading	1,707,177	—	1,017,054			2,724,231	(103)	2,724,128
Prepayments, accrued income and other assets	270,409	207,868	2,501,849	64,396	21,627	3,066,149	(23,437)	3,042,712
– endorsements and acceptances	44,349	207,868	1,664,364	64,396	—	1,980,977	(1,810)	1,979,167
– accrued income and other	226,060		837,485		21,627	1,085,172	(21,627)	1,063,545
Debt instruments measured at fair value through other comprehensive income[24]	32,926,634	—	—	—	—	32,926,634	(728)	32,925,906
Out-of-scope for IFRS 9								
Trading assets	81,060	56,893	577,576	—	—	715,529	—	715,529
Derivatives	3,477,333	484,604	96,314	3,509	6,117	4,067,877	—	4,067,877
Total gross carrying amount on balance sheet	77,067,752	12,905,651	21,921,499	3,264,052	4,031,026	119,189,980	(3,119,142)	116,070,838
Percentage of total credit quality	65%	11%	18%	3%	3%	100%		100%
Loan and other credit related commitments	9,742,444	5,115,842	2,963,196	283,709	23,402	18,128,593	(13,419)	18,115,174
Financial guarantees	797,324	810,926	774,181	30,575	28,830	2,441,836	(14,832)	2,427,004
Total nominal amount off balance sheet	10,539,768	5,926,768	3,737,377	314,284	52,232	20,570,429	(28,251)	20,542,178
At 31 Dec 2019	87,607,520	18,832,419	25,658,876	3,578,336	4,083,258	139,760,409	(3,147,393)	136,613,016

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2020

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Gross carrying amount on balance sheet	**34,840,918**	**26,146,850**	**18,491,635**	**2,583,633**	**5,087,737**	**87,150,773**	**(4,454,496)**	**82,696,277**
– stage 1	**32,671,750**	**19,784,030**	**12,272,724**	**815,288**	**—**	**65,543,792**	**(229,547)**	**65,314,245**
– stage 2	**2,169,168**	**6,362,820**	**6,218,911**	**1,768,345**	**—**	**16,519,244**	**(766,254)**	**15,752,990**
– stage 3	**—**	**—**	**—**	**—**	**5,023,948**	**5,023,948**	**(3,443,093)**	**1,580,855**
– POCI	**—**	**—**	**—**	**—**	**63,789**	**63,789**	**(15,602)**	**48,187**
Nominal amount off balance sheet	**8,795,614**	**6,698,558**	**3,790,880**	**173,104**	**217,673**	**19,675,829**	**(102,497)**	**19,573,332**
– stage 1	**7,823,498**	**5,778,630**	**3,108,171**	**32,828**	**—**	**16,743,127**	**(30,856)**	**16,712,271**
– stage 2	**972,116**	**919,928**	**682,709**	**140,276**	**—**	**2,715,029**	**(71,635)**	**2,643,394**
– stage 3	**—**	**—**	**—**	**—**	**217,673**	**217,673**	**(6)**	**217,667**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**43,636,532**	**32,845,408**	**22,282,515**	**2,756,737**	**5,305,410**	**106,826,602**	**(4,556,993)**	**102,269,609**
Gross carrying amount on balance sheet	73,509,359	12,364,154	21,247,609	3,260,543	4,024,909	114,406,574	(3,119,142)	111,287,432
– stage 1	73,506,865	11,234,654	19,213,344	2,210,199	—	106,165,062	(216,461)	105,948,601
– stage 2	2,494	1,129,500	2,034,265	1,050,344	—	4,216,603	(265,781)	3,950,822
– stage 3	—	—	—	—	3,992,288	3,992,288	(2,608,403)	1,383,885
– POCI	—	—	—	—	32,621	32,621	(28,497)	4,124
Nominal amount off balance sheet	10,539,768	5,926,768	3,737,377	314,284	52,232	20,570,429	(28,251)	20,542,178
– stage 1	10,535,933	5,789,720	2,918,958	269,171	—	19,513,782	(17,240)	19,496,542
– stage 2	3,835	137,048	818,419	45,113	—	1,004,415	(11,005)	993,410
– stage 3	—	—	—	—	52,232	52,232	(6)	52,226
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2019	84,049,127	18,290,922	24,984,986	3,574,827	4,077,141	134,977,003	(3,147,393)	131,829,610

Past due but not impaired gross financial instruments

Past due but not impaired gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria. This is typically when a loan is less than 90 days past due and there are no other indicators of impairment.

Further examples of exposures past due but not impaired include individually assessed mortgages that are in arrears more than 90 days, but there are no other indicators of impairment and the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year or short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation but there is no concern over the creditworthiness of the counterparty.

The following table provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired. There are no other significant balance sheet items where past due balances are not considered impaired.

Stage 2 days past due analysis

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD
	AED000	AED000	AED000	AED000	AED000	AED000			
Loans and advances to customers held at amortised cost	**15,451,085**	**363,421**	**260,852**	**(762,592)**	**(33,707)**	**(74,052)**	**(4.9)**	**(9.3)**	**(28.4)**
– personal	**817,844**	**52,808**	**100,630**	**(343,103)**	**(28,230)**	**(56,174)**	**(42.0)**	**(53.5)**	**(55.8)**
– corporate and commercial	**14,381,303**	**310,613**	**160,222**	**(410,713)**	**(5,477)**	**(17,878)**	**(2.9)**	**(1.8)**	**(11.2)**
– non-bank financial institutions	**251,938**	**—**	**—**	**(8,776)**	**—**	**—**	**—**	**—**	**—**
Loans and advances to banks at amortised cost	**255,394**	**—**	**—**	**(904)**	**—**	**—**	**(0.4)**	**—**	**—**
Other financial assets measured at amortised cost	**188,493**	**629**	**—**	**(2,758)**	**(595)**	**—**	**(1.5)**	**(94.6)**	**—**
At 31 Dec 2020	**15,894,972**	**364,050**	**260,852**	**(766,254)**	**(34,302)**	**(74,052)**	**(4.8)**	**(9.4)**	**(28.4)**
Loans and advances to customers held at amortised cost	3,942,979	230,982	105,374	(264,696)	(26,626)	(35,852)	(6.7)	(11.5)	(34.0)
– personal	496,377	59,174	63,689	(158,943)	(23,961)	(34,825)	(32.0)	(40.5)	(54.7)
– corporate and commercial	3,446,602	171,808	41,685	(105,753)	(2,665)	(1,027)	(3.1)	(1.6)	(2.5)
– non-bank financial institutions	—	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	37,816	—	—	(213)	—	—	(0.6)	—	—
Other financial assets measured at amortised cost	235,807	9,681	285	(871)	(16)	(35)	(0.4)	(0.2)	(12.3)
At 31 Dec 2019	4,216,602	240,663	105,659	(265,780)	(26,642)	(35,887)	(6.3)	(11.1)	(34.0)

Impaired loans

Impaired and stage 3 loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as CRR 9 or CRR 10. These grades are assigned when the Bank considers that either the customer is unlikely to pay their credit obligations in full without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Bank.
- Retail loans and advances classified as Band 10. These grades are typically assigned to retail loans and advances more than 90 days past due unless individually they have been assessed as not impaired.
- Renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Renegotiated loans and forbearance

Where a loan is modified due to significant concerns about the borrower's ability to meet contractual payments when due, a range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession.

Identifying renegotiated loans

Loans are identified as renegotiated loans when the Bank modifies the contractual payment terms due to significant credit distress of the borrower. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. The Bank classifies and reports loans on which concessions have been granted under conditions of credit distress as 'renegotiated loans' when their contractual payment terms have been modified because the Bank has significant concerns about the borrowers' ability to meet contractual payments when due.

When considering modification terms, the borrower's continued ability to repay is assessed and where they are unrelated to payment arrangements, whilst potential indicators of impairment, these loans are not considered as renegotiated loans. Loans that have been identified as renegotiated retain this designation until maturity or derecognition. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is substantially a different financial instrument. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans.

Credit Quality of Renegotiated Loans

Under IFRSs, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

When the Bank grants a concession to a customer that the Bank would not otherwise consider, as a result of their financial difficulty, this is objective evidence of impairment and impairment losses are measured accordingly.

A renegotiated loan is presented as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and;
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in derecognition of the existing loan, such as in some debt consolidations, the new loan is disclosed as renegotiated.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the Bank considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

Renegotiated loans and advances to customers by industry sector at 31 December 2020

	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Renegotiated loans
	AED000	AED000	AED000	AED000	AED000
Stage 1	**—**	**—**	**—**	**—**	**—**
Stage 2	**—**	**—**	**271,529**	**—**	**271,529**
Stage 3	**216,544**	**109,082**	**1,827,034**	**—**	**2,152,660**
Renegotiated loans At 31 Dec 2020	**216,544**	**109,082**	**2,098,563**	**—**	**2,424,189**
Allowance for expected credit losses on renegotiated loans					**1,459,593**
Stage 1	—	—	1,228,638	—	1,228,638
Stage 2	—	—	130,539	—	130,539
Stage 3	349,201	40,357	2,199,698	54,310	2,643,566
Renegotiated loans At 31 Dec 2019	349,201	40,357	3,558,875	54,310	4,002,743
Allowance for expected credit losses on renegotiated loans					1,712,285

For retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in renegotiated loans.

For details of our impairment policies on loans and advances and financial investments, see Note 2.2 of the Financial Statements.

Concentration of exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics or such counterparties are engaged in similar activities or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Bank uses a number of controls and measures to minimise undue concentration of exposure in our portfolios across industry and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

The Bank provides a diverse range of financial services both in the Middle East and internationally. As a result, its portfolio of financial instruments with credit risk is diversified, with no exposures to individual industries or economic Bankings totalling more than 10% of total assets, except as follows:

- the majority of the Bank's exposure to credit risk is concentrated in the Middle East. Within the Middle East, the Bank's credit risk is diversified over a wide range of industrial and economic groupings; and
- the Bank's position as part of a major international banking group means, that it has a significant concentration of exposure to banking counterparties. The majority of credit risk to the banking industry at 31 December 2020 and 31 December 2019 was concentrated in the Middle East.

Wrong-way risk is an aggravated form of concentration risk and arises when there is a strong correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The Bank uses a range of procedures to monitor and control wrong-way risk, including requiring entities to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
	Total	As a % of total gross loans
At 31 Dec 2020	**AED000**	**%**
Personal		
– residential mortgages	**6,762,464**	**12.2**
– other personal	**4,252,070**	**7.7**
	11,014,534	**19.9**
Corporate and commercial		
– commercial, industrial and international trade	**22,349,333**	**40.3**
– commercial real estate	**7,614,711**	**13.7**
– government	**4,931,832**	**8.9**
– other commercial	**8,863,187**	**16.0**
	43,759,063	**79.0**
Financial		
– non-bank financial institutions	**626,002**	**1.1**
Total gross loans and advances to customers	**55,399,599**	**100.0**
Impaired loans		
– as a percentage of gross loans and advances to customers	**9.15 %**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**7.99 %**	
At 31 Dec 2019		
Personal		
– residential mortgages	7,056,739	12.3
– other personal	5,370,392	9.4
	12,427,131	21.7
Corporate and commercial		
– commercial, industrial and international trade	23,781,227	41.4
– commercial real estate	8,178,547	14.3
– government	5,393,572	9.4
– other commercial	7,163,391	12.5
	44,516,737	77.6
Financial		
– non-bank financial institutions	448,758	0.8
Total gross loans and advances to customers	57,392,626	100.0
Impaired loans		
– as a percentage of gross loans and advances to customers	6.98 %	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	5.39 %	

Collateral and other credit enhancements held

Loans and advances held at amortised cost

Although collateral can be an important mitigant of credit risk, it is the Bank's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided without security. However, for other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the Bank may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating the Bank's exposure to credit risk.

The tables below provide a quantification of the value of fixed charges the Bank holds over specific asset (or assets) where the Bank has a history of enforcing, and are able to enforce, the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations, and where the collateral is cash or can be realised by sale in an established market. The collateral valuation in the tables below excludes any adjustments for obtaining and selling the collateral.

The Bank may also manage its risk by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified. In particular, loans shown in the tables below as not collateralised or partially collateralised may benefit from such credit mitigants.

Personal lending: residential mortgage loans including loan commitments by level of collateral at 31 December

	Gross carrying/nominal amount	
	2020	2019
	AED000	AED000
Stage 1		
Fully collateralised	**6,053,647**	6,203,300
LTV ratio:		
– less than 50%	**834,435**	918,366
– 51% to 60%	**782,874**	730,669
– 61% to 70%	**1,123,168**	1,051,197
– 71% to 80%	**1,794,300**	1,765,377
– 81% to 90%	**1,184,614**	1,424,514
– 91% to 100%	**334,256**	313,177
Partially collateralised (A):	**168,385**	378,234
LTV ratio:		
– 101% to 110%	**92,290**	177,073
– 111% to 120%	**23,111**	68,590
– greater than 120%	**52,984**	132,571
– *collateral value on A*	***146,213***	*349,548*
Total	**6,222,032**	6,581,534
Stage 2		
Fully collateralised	**200,183**	36,362
LTV ratio:		
– less than 50%	**38,641**	11,360
– 51% to 60%	**5,744**	1,909
– 61% to 70%	**38,243**	8,693
– 71% to 80%	**80,249**	6,733
– 81% to 90%	**27,648**	2,413
– 91% to 100%	**9,658**	5,254
Partially collateralised (B):	**33,133**	9,614
LTV ratio:		
– 101% to 110%	**6,190**	–
– 111% to 120%	**649**	3,367
– greater than 120%	**26,294**	6,247
– *collateral value on B*	**24,047**	7,793
Total	**233,316**	45,976
Stage 3		
Fully collateralised	**160,824**	164,011
LTV ratio:		
– less than 50%	**34,684**	28,555
– 51% to 60%	**7,909**	14,786
– 61% to 70%	**22,431**	18,450
– 71% to 80%	**32,472**	18,185
– 81% to 90%	**31,107**	25,754
– 91% to 100%	**32,221**	58,281
Partially collateralised (C):	**146,292**	267,131
LTV ratio:		
– 101% to 110%	**20,179**	31,156
– 111% to 120%	**36,924**	15,186
– greater than 120%	**89,189**	220,789
– *collateral value on C*	***116,728***	*263,878*
Total	**307,116**	431,142
At 31 Dec	**6,762,464**	7,058,652

The above table shows residential mortgage lending including off-balance sheet loan commitments by level of collateral. The collateral included in the table above consists of first charges on real estate.

The LTV ratio is calculated as the gross on balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral. The methodologies for obtaining residential property collateral values vary, but are typically determined through a combination of professional appraisals, house price indices or statistical analysis. Valuations must be updated on a regular basis and, at a minimum, annually.

Other personal lending

The other personal lending consists primarily of motor vehicle, credit cards and second lien portfolios. Motor vehicle lending is generally collateralised by the motor vehicle financed. Credit cards and overdrafts are generally unsecured. Second lien lending is supported by collateral but the claim on the collateral is subordinate to the first lien charge.

Collateral on loans and advances

Commercial real estate loans and advances

Collateral held is analysed separately below for commercial real estate and for other corporate, commercial and financial (non-bank) lending. The analysis includes off-balance sheet loan commitments, primarily undrawn credit lines.

Wholesale lending: commercial real estate loans and advances including loan commitments by level of collateral at 31 December

	Gross carrying/nominal amount	
	2020	2019
	AED000	AED000
Stage 1		
Not collateralised	**3,037,687**	5,782,443
Fully collateralised	**770,776**	814,397
LTV ratio:		
– less than 50%	**93,364**	103,731
– 51% to 75%	**–**	10,084
– 76% to 90%	**506,620**	–
– 91% to 100%	**170,792**	700,582
Partially collateralised (A):	**470,067**	371,752
– *collateral value on A*	***337,128***	*287,028*
Total	**4,278,530**	6,968,592
Stage 2		
Not collateralised	**1,853,207**	12,154
Total	**1,853,207**	12,154
Stage 3		
Not collateralised	**112,833**	112,823
Fully collateralised	**21,920**	23,795
LTV ratio:		
– less than 50%	**21,920**	23,795
Partially collateralised (B):	**779,060**	629,052
– *collateral value on B*	***580,048***	*556,829*
Total	**913,813**	765,670
At 31 Dec	**7,045,550**	7,746,416

The collateral included in the table above consists of fixed first charges on real estate and charges over cash for commercial real estate. These facilities are disclosed as not collateralised if they are unsecured or benefit from credit risk mitigation from guarantees, which are not quantified for the purposes of this disclosure.

The value of commercial real estate collateral is determined through a combination of professional and internal valuations and physical inspection. Due to the complexity of valuing collateral for commercial real estate, local valuation policies determine the frequency of review based on local market conditions. Revaluations are sought with greater frequency when, as part of the regular credit assessment of the obligor, material concerns arise in relation to the transaction which may reflect on the underlying performance of the collateral, or in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation (i.e. the obligor's credit quality classification indicates it is at the lower end, that is sub-standard, or approaching impaired). Where such concerns exist the revaluation method selected will depend upon the loan-to-value relationship, the direction in which the local commercial real estate market has moved since the last valuation and, most importantly, the specific characteristics of the underlying commercial real estate which is of concern.

Other corporate, commercial and financial (non-bank) lending is analysed separately below reflecting the difference in collateral held on the portfolios. For financing activities in corporate and commercial lending that are not predominantly commercial real estate oriented, collateral value is not strongly correlated to principal repayment performance. Collateral values are generally refreshed when an obligor's general credit performance deteriorates and we have to assess the likely performance of secondary sources of repayment should it prove necessary to rely on them.

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral by stage at 31 December

	Gross carrying/nominal amount	
	2020	2019
	AED000	AED000
Stage 1		
Not collateralised	**48,418,270**	59,076,629
Fully collateralised	**208,520**	929,949
LTV ratio:		
– less than 50%	**21,328**	222,093
– 51% to 75%	**56,479**	239,983
– 76% to 90%	**84,939**	106,028
– 91% to 100%	**45,774**	361,845
Partially collateralised (A):	**1,838,043**	4,110,311
– *collateral value on A*	***754,799***	*636,092*
Total	**50,464,833**	64,116,889
Stage 2		
Not collateralised	**16,977,211**	6,794,157
Fully collateralised	**316,555**	136,443
LTV ratio:		
– less than 50%	**173,708**	23,463
– 51% to 75%	**118,855**	91,872
– 76% to 90%	**10,917**	10,983
– 91% to 100%	**13,075**	10,125
Partially collateralised (B):	**2,616,042**	723,683
– *collateral value on B*	***820,816***	*263,034*
Total	**19,909,808**	7,654,283
Stage 3		
Not collateralised	**2,703,227**	1,534,183
Fully collateralised	**131,539**	449,552
LTV ratio:		
– less than 50%	**33,601**	78,724
– 51% to 75%	**9,514**	2,567
– 76% to 90%	**9,493**	289,519
– 91% to 100%	**78,931**	78,742
Partially collateralised (C):	**1,007,652**	581,264
– *collateral value on C*	***292,006***	*220,798*
Total	**3,842,418**	2,564,999
POCI		
Not collateralised	**18,410**	32,621
Fully collateralised	**45,379**	–
LTV ratio:		
– 91% to 100%	**45,379**	–
Total	**63,789**	32,621
At 31 Dec	**74,280,848**	74,368,792

Other credit risk exposures

In addition to collateralised lending described above, other credit enhancements are employed and methods used to mitigate credit risk arising from financial assets. These are described in more detail below.

Securities issued by governments, banks and other financial institutions may benefit from additional credit enhancement, notably through government guarantees that reference these assets.

The Bank's maximum exposure to credit risk includes financial guarantees and similar arrangements that the Bank issues or enters into, and loan commitments that the Bank are irrevocably committed to. Depending on the terms of the arrangement, the Bank may have recourse to additional credit mitigation in the event that a guarantee is called upon or a loan commitment is drawn and subsequently defaults.

Derivatives

The International Swaps and Derivatives Association ('ISDA') Master Agreement is our preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter ('OTC') products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and the Bank's preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions.

Liquidity and Funding

Overview

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet the obligations as they fall due. Liquidity risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that the Bank cannot raise funding or only do so at excessive cost.

Covid-19

The management of liquidity risk was enhanced during 2020 in response to the Covid-19 outbreak to ensure we anticipated, monitored and responded to the impacts of the ongoing situation. Management instigated multiple work streams to ensure that the response to the situation was robust, pro-active and proportionate, and to ensure the position remains strong.

Internal Liquidity Adequacy Assessment Process ('ILAAP') and Risk Appetite

The Bank has an internal liquidity and funding risk management framework ('LFRF') which aims to allow the Bank to withstand very severe liquidity stresses. The LFRF comprises policies, metrics and controls designed to ensure that the Bank has oversight of our liquidity and funding risks in order to manage them appropriately.

The Bank manages liquidity and funding risk at an operating entity level to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other entities of HSBC. As a branch of HSBC Bank Middle East, the Bank is required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which is used to ensure that the Bank has robust strategies, policies and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day, so as to ensure we maintain adequate levels of liquidity buffers. It also informs the validation of risk tolerance and risk appetite. These metrics are set and managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the LFRF across the Group.

Performance and Measurement

Funding and liquidity plans form part of the annual operating plan that is approved by the HBME Board. The critical Board-level measures are the liquidity coverage ratio ('LCR') and net stable funding ratio (NSFR). An appropriate funding and liquidity profile is managed through a wider set of measures:

- A minimum LCR requirement
- A minimum NSFR requirement
- A deposit concentration measure
- A wholesale market term funding maturity concentration measure
- Single currency liquidity and funding management
- Analysis of off-balance sheet commitments
- Individual Liquidity Adequacy Assessment and liquidity stress testing
- Liquidity funds transfer pricing
- Forward looking funding status assessments

Risks to Liquidity and Funding

Risks to liquidity and funding are assessed through forecasting, stress testing and scenario analysis, combined with ongoing assessments of risks in the business and external environment.

Stress testing, recovery and contingency planning

The Bank uses stress testing to evaluate the robustness of plans and risk portfolios, inform the ILAAP and support recovery planning. The Bank maintains a contingency plan which can be enacted in the event of internal or external triggers which threaten the liquidity or funding position. The Bank also has a recovery plan addressing the actions that management would consider taking in a stress scenario if the position deteriorates and threatens to breach risk appetite and regulatory minimum levels. The recovery plan sets out a range of appropriate actions which could feasibly be executed in a stressed environment to recover the position.

Management of Liquidity and Funding Risk

Liquidity coverage ratio ('LCR')

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario.

Net stable funding ratio ('NSFR')

The Bank's internal liquidity and funding risk management framework requires all entities to use the net stable funding ratio ('NSFR') as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR requires institutions to maintain minimum amount of stable funding based on assumptions of asset liquidity.

Depositor concentration and wholesale market term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is challenged if the portfolio of depositors is not large enough to avoid depositor concentration. Operating entities are exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

The Bank monitors depositor concentration and term funding maturity concentration. Both metrics are subject to limits which are approved by the HBME Board.

Currency mismatch in the LCR and NSFR

The Bank's internal liquidity and funding risk management framework requires all operating entities to monitor the LCR and NSFR for material currencies. Limits are set locally for single currency LCR and NSFR to ensure stable funding by currency and to ensure that outflows can be met, given assumptions on stressed capacity in the FX swap markets.

Liquid assets

Liquid assets are held and managed on a stand-alone operating entity basis. Most are held directly by the Markets Treasury department, primarily for the purpose of managing liquidity risk in line with the LFRF.

Liquid assets also include any unencumbered liquid assets held outside Markets Treasury departments for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

Further details in respect of the Bank's Liquidity and Funding ratios are set out in the Additional Information section of the Financial Statements 2020 on Page 66.

Primary sources of funding

Our primary sources of funding are customer current accounts and savings deposits payable on demand or at short notice. We issue unsecured wholesale securities to supplement customer deposits and to change the currency mix, maturity profile or location of our liabilities.

Ordinary share capital and retained reserves, non-core capital instruments and intergroup borrowings are also a source of stable funding.

Customer deposits in the form of current accounts and savings deposits payable on demand or at short notice form a significant part of the Bank's funding, and the Bank places considerable importance on maintaining their stability. For deposits, stability depends upon maintaining depositor confidence in our capital strength and liquidity, and on competitive and transparent pricing.

Of the total liabilities of AED 111,918 million at 31 December 2020, funding from customers amounted to AED 77,743 million, of which AED 44,257 million was contractually repayable within one year.

An analysis of cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date is included in Note 24.

Assets available to meet these liabilities, and to cover outstanding commitments to lend (AED 42,454 million), included cash, central bank balances, items in the course of collection and treasury and other bills (AED 11,467 million); loans to banks (AED 21,399 million, including AED 20,536 million repayable within one year); and loans to customers (AED 50,971 million, including AED 21,964 million repayable within one year). In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

The Bank also accesses wholesale funding markets by issuing senior secured and unsecured debt securities (publicly and privately) and borrowing from the secured repo markets against high quality collateral to align asset and liability maturities and currencies and to maintain a presence in local wholesale markets.

Ordinary share capital and retained reserves, non-core capital instruments and intergroup borrowings are also a source of stable funding.

Market risk

Market risk management

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the Bank's income or the value of the Bank's portfolios.

The Bank's exposure to market risk is separated into trading or non-trading portfolios. Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions. Non-trading portfolios include positions that primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities and financial investments designated as fair value through other comprehensive income.

Market risk measures

Monitoring and limiting market risk exposures

The Bank's objective is to manage and control market risk exposures while maintaining a market profile consistent with the Bank's risk appetite. The Bank uses a range of tools to monitor and limit market risk exposures, including:

- sensitivity measures include sensitivity of net interest income and sensitivity for structural foreign exchange, which are used to monitor the market risk positions within each risk type;
- value at risk ('VaR') is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence; and
- in recognition of VaR's limitations the Bank augments VaR with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables.

Market risk is managed and controlled through limits approved by the RMM of the GMB for HSBC Holdings and our various global businesses. These limits are allocated across business lines and to the HSBC Bank's legal entities.

The management of market risk is principally undertaken in Global Markets. VaR limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set.

VaR limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set. HSBC Group Risk, an independent unit within HSBC Bank, is responsible for our market risk management policies and measurement techniques. The Bank has an independent market risk management and control function that is responsible for measuring market risk exposures in accordance with the policies defined by HSBC Bank Risk, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

The Bank assesses the market risks arising on each product in its business and to transfer them to either its Global Markets unit for management, or to separate books managed under the supervision of the local ALCO. Our aim is to ensure that all market risks are consolidated within operations that have the necessary skills, tools, management and governance to manage them professionally. In certain cases where the market risks cannot be fully transferred, the Bank identifies the impact of varying scenarios on valuations or on net interest income resulting from any residual risk positions.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices, such as the effect of a one basis point change in yield. We use sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

VaR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR models used by the Bank are predominantly based on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates, such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures. The historical simulation models assess potential market movements with reference to data from the past two years and calculate VaR to a 99% confidence level and for a one-day holding period.

The Bank routinely validates the accuracy of its VaR models by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers. Statistically, the Bank would expect to see losses in excess of VaR only 1% of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or the risks offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under conditions of significant market movement.

Trading and non-trading portfolio

The following table provides an overview of the reporting of the risks within this section:

		Portfolio	
	Footnotes	Trading	Non-trading
Risk type			
Foreign exchange and commodity	1	VaR	VaR
Interest rate		VaR	VaR
Credit spread		VaR	VaR

1 *The reporting of commodity risk is consolidated with foreign exchange risk and is not applicable to non-trading portfolios.*

Value at risk of the trading and non-trading portfolio

The Bank VaR, both trading and non-trading, is below:

Value at risk

	2020	2019
	AED000	AED000
At 31 Dec	**10,016**	8,803
Average	**12,788**	6,776
Maximum	**20,837**	13,823
Minimum	**8,231**	3,977

Trading portfolios

The Bank's control of market risk in the trading portfolios is based on a policy of restricting individual operations to trading within a list of permissible instruments authorised for each site by HSBC Group Risk, of enforcing new product approval procedures, and of restricting trading in the more complex derivative products only to offices with appropriate levels of product expertise and robust control systems.

Market-making and position-taking is undertaken within Global Markets. The VaR for such trading intent activity at 31 December 2020 was AED 10.1 million (2019: AED 8.26 million).

VaR by risk type for the trading intent activities

		Foreign exchange (FX)	**Interest rate**	**Credit spread**	**Total**
	Footnotes	**AED000**	**AED000**	**AED000**	**AED000**
At 31 Dec 2020	1	**908**	**8,423**	**1,816**	**9,639**
Average		**2,301**	**9,112**	**1,942**	**9,795**
Maximum		**8,728**	**14,886**	**10,417**	**16,129**
Minimum		**734**	**5,551**	**421**	**5,928**
At 31 Dec 2019		1,517	8,120	8,219	8,120
Average		2,505	4,323	5,814	4,323
Maximum		7,312	10,110	11,183	10,110
Minimum		723	1,932	2,596	1,932

1 *The total VaR is non-additive across risk types due to diversification effects.*

Non Trading portfolios

Non-trading VaR of the Bank includes contributions from all global businesses. There is no commodity risk in the non-trading portfolios. Non-trading VaR includes the interest rate risk in the banking book transferred to and managed by BSM and the non-trading financial instruments held by BSM.

VaR by risk type for the non-trading activities

	Interest rate	Credit spread	Total
	AED000	AED000	AED000
At 31 Dec 2020	**7,442**	**5,366**	**8,869**
Average	**7,445**	**7,607**	**11,184**
Maximum	**15,143**	**19,272**	**21,059**
Minimum	**4,141**	**1,224**	**5,921**
At 31 Dec 2019	6,078	1,271	6,310
Average	4,436	1,407	4,525
Maximum	8,561	6,096	12,843
Minimum	2,277	525	2,085

Gap risk

A gap event is a significant and sudden change in market price with no accompanying trading opportunity. Such movements may occur, for example, when, in reaction to an adverse event or unexpected news announcement, some parts of the market move far beyond their normal volatility range and become temporarily illiquid.

Given the characteristics, these transactions will not have significant impact on VaR or to market risk sensitivity measures. The group captures the risks for such transactions within the stress testing scenarios and monitors gap risk on an ongoing basis.

The group incurred no material losses (2019: nil) arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2020.

De-peg risk

For certain currencies (pegged or managed) the spot exchange rate is pegged at a fixed rate (typically to US Dollar), or managed within a predefined band around a pegged rate. De-peg risk is the risk of the peg or managed band changing or being abolished, and moving to a floating regime.

Using stressed scenarios on spot rates, the Bank is able to analyse how de-peg events would impact the positions held by the bank. This complements traditional market risk metrics, such as historical VaR, which may not fully capture the risk involved in holding positions in pegged currencies. Historical VaR relies on past events to determine the likelihood of potential profits or losses. However, pegged or managed currencies may not have experienced a de-peg event during the historical timeframe being considered.

Non-trading portfolios

The principal objective of market risk management of non-trading portfolios is to optimise net interest income.

Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas, such as the incidence of mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts, and the re-pricing behaviour of managed rate products.

The control of market risk in the non-trading portfolios is based on transferring the risks to the books managed by Global Markets and Balance Sheet Management ('BSM') or ALCO. The net exposure is typically managed through the use of interest rate swaps within agreed limits. The VaR for these portfolios is included within the bank VaR.

Net interest income sensitivity

A principal part of the Bank's management of market risk in non-trading portfolios is monitoring the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Bank aims, through our management of market risk in non-trading portfolios, to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of hedging such activities on the current net revenue stream.

For simulation modelling, businesses use a combination of scenarios relevant to their local businesses and markets and standard scenarios which are required throughout the HSBC Bank. The latter are consolidated to illustrate the combined pro forma effect on the Bank's consolidated portfolio valuations and net interest income.

Projected net interest income sensitivity figures represent the effect of the pro forma movements in net interest income based on the projected yield curve scenarios and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions which would probably be taken by Global Markets or in the business units to mitigate the effect of interest rate risk. In reality, Global Markets seeks proactively to change the interest rate risk profile to minimise losses and optimise net revenues. The projections also assume that interest rates of all maturities move by the same amount (although rates are not assumed to become negative in the falling rates scenario) and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. In addition, the projections take account of the effect on net interest income of anticipated differences in changes between interbank interest rates and interest rates linked to other bases (such as Central Bank rates or product rates over which the entity has discretion in terms of the timing and extent of rate changes). The projections make other simplifying assumptions, including that all positions run to maturity.

Defined benefit pension scheme

Market risk also arises within the Bank's defined benefit pension schemes to the extent that the obligations of the schemes are not fully matched by assets with determinable cash flows.

Non-Financial Risk

Non-financial risk is defined as the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events.

We use a comprehensive risk management framework across the organization and across all risk types, underpinned by the Group's culture and values. This outlines the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities.

All our people are responsible for identifying and managing risk within the scope of their roles and as part of the three lines of defence model. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our chief risk officers.

During 2020, we continued to strengthen the control environment and our approach to management of the non-financial risk, as broadly set out in our risk management framework. Our ongoing focus is on simplifying our approach while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the operational and resilience risk function which supports the chief risk officers.

Legal risk

The Bank implements processes and procedures in place to manage legal risk that conform to HSBC Bank standards.

Legal risk falls within the definition of operational risk and includes the risk of a member of the Bank suffering financial loss, legal or regulatory action or reputational damage due to:

- contractual risk, which is the risk that any Bank member enters into inadequate or unenforceable customer contracts or ancillary documentation, inadequate or unenforceable non-customer contracts or ancillary documentation and/or contractual fiduciary;
- dispute adjudication risk, which is the risk arising due to an adverse dispute environment or a failure to take appropriate steps to defend, prosecute and/or resolve actual or threatened legal claims brought against or by a Bank member, including for the avoidance of doubt, regulatory matters;
- legislative risk, which is the risk that a Bank member fails to or is unable to identify, analyse, track, assess or correctly interpret applicable legislation, case law or regulation, or new regulatory, legislative or doctrinal interpretations of existing laws or regulations, or decisions in the Courts or regulatory bodies;
- non-contractual rights risk, which is the risk that a Bank member's assets are not properly owned or protected or are infringed by others, or a Bank member infringes another party's rights; and
- non-contractual obligations risk, which is the risk arising due to infringement of third-party rights and/or breach of common law duties.

The Bank has a legal function to assist management in controlling legal risk. The function provides legal advice to manage and control legislative, contractual and non-contractual risks and support in managing litigation claims and significant regulatory enforcement against the Bank, as well as in respect of non-routine debt recoveries or other litigation against third parties.

The Bank members must notify the legal department immediately if any litigation, dispute or material regulatory action is either threatened or commenced against the Bank or an employee (acting in their capacity as an officer or employee of the Bank). The legal department must be immediately advised of any significant action by a regulatory authority, where the proceedings are criminal, or where the claim might materially affect HSBC Bank's reputation.

The legal department will assess each claim that is threatened or commenced against the Bank or any employee (acting in their capacity as an officer or employee of the Bank) in order to determine the appropriate action, including appointment of external counsel, consideration of the merits of the claim, consideration of any provision, consideration of any document holds or interviews that may be required and consideration of any immediate reporting to senior management or the Bank's regulators as may be necessary.

The legal department must immediately advise the Bank's senior management and the HSBC Group of any threatened or actual litigation claims if such claim exceeds US$ 5 million or of any significant action by a regulatory authority, where the proceedings are criminal or where a claim might materially affect HSBC Bank's reputation. In addition, the legal department submits periodic returns to the Bank's risk management meeting and Board Risk Committee meeting, including updates on ongoing litigation and details of any judgements issued against the Bank. These returns are shared with the Bank's regulators on a periodic basis.

Finally, the Bank is required to submit a quarterly return to HSBC Bank detailing outstanding claims where the claim (or Bank of similar claims) exceeds US$ 10 million, where the action is by a regulatory authority, where the proceedings are criminal, where the claim might materially affect the Bank's reputation, or, where the HSBC Bank has requested returns be completed for a particular claim. These returns are used for reporting to the HSBC Bank Audit Committee and the Board of HSBC Holdings plc.

Capital management

The Central Bank of the UAE ('CBUAE') is the regulator of the bank.

The bank's objective is to ensure that capital resources are at all times adequate and efficiently used. This implies assessing the bank's capital demand and maintaining the capital supply at the required level. The bank's approach to capital management is driven by strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which it operates in. The bank's policy on capital management is underpinned by a capital management process and the internal capital adequacy assessment process, which enables it to manage its capital in a consistent manner.

The CBUAE supervises the bank and, receives information on the capital adequacy of, and sets capital requirements for, the bank.

Further details in respect of the group's Capital requirement are set out in the Additional Information section of the Financial Statements 2020 on Page 66.

28 Contingent liabilities, contractual commitments and guarantees

	2020	2019
	AED000	AED000
Guarantees and other contingent liabilities		
Guarantees	**34,341,063**	32,729,438
Commitments		
Documentary credits and short-term trade-related transactions	**765,186**	1,273,230
Undrawn formal standby facilities, credit lines and other commitments to lend	**42,453,492**	43,334,430
At 31 Dec	**43,218,678**	44,607,660

The above table discloses the nominal principal amounts which represents the maximum amounts at risk should contracts be fully drawn upon and customers default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of these nominal principal amounts is not representative of future liquidity requirements.

Included in the above are the following contingent liabilities on account of other members of the HSBC Group:

	2020	2019
	AED000	AED000
Guarantees and assets pledged by the bank as collateral security	**4,050,827**	3,784,036
Documentary credits and short-term trade-related transactions	**367,277**	534,665
At 31 Dec	**4,418,104**	4,318,701

Guarantees

The Bank provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the Bank. These guarantees are generally provided in the normal course of the Bank's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the Bank could be required to make at 31 December were as follows:

		2020		2019	
		Guarantees in favour of third parties	Guarantees by the Bank in favour of other HSBC Group entities	Guarantees in favour of third parties	Guarantees by the Bank in favour of other HSBC Group entities
	Footnotes	AED000	AED000	AED000	AED000
Financial guarantees	*1*	**1,596,457**	**182,198**	2,236,746	205,089
Credit-related guarantees	*2*	**22,103,686**	**3,006,155**	9,652,583	1,175,119
Other guarantees		**6,590,092**	**862,474**	17,056,073	2,403,828
At 31 Dec		**30,290,235**	**4,050,827**	28,945,402	3,784,036

1 *Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due.*
2 *Credit-related guarantees are contracts that have similar features to financial guarantee contracts.*

The amounts disclosed in the above table are nominal principal amounts and reflect the Bank's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the Bank's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the Bank's annual credit review process.

Other commitments

In addition to the commitments disclosed above, at 31 December 2020 the Bank had capital commitments to purchase, within one year, land and building and other fixed assets for a value of AED Nil (2019: AED Nil).

29 Lease commitments

Finance lease receivables

The Bank leases a variety of assets to third parties under finance leases. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2020			2019		
	Total future minimum payments	Unearned finance income	Present value	Total future minimum payments	Unearned finance income	Present value
	AED000	AED000	AED000	AED000	AED000	AED000
Lease receivables:						
– no later than one year	**70,209**	**(4,839)**	**65,370**	293,154	(6,823)	286,331
– later than one year and no later than five years	**130,312**	**(16,467)**	**113,845**	118,547	(25,231)	93,316
– later than five years	**41,699**	**(1,492)**	**40,207**	124,749	(4,577)	120,172
At 31 Dec	**242,220**	**(22,798)**	**219,422**	536,450	(36,631)	499,819

30 Legal proceedings and regulatory matters

The Bank is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the Bank considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2 of the Bank's Financial Statements 2020. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2020. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matters

(Matters relevant to the group as a subsidiary of HSBC operating in the Middle East)

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority, which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC Holdings agreed to retain an independent compliance monitor to produce annual assessments of the Group's AML and sanctions compliance programme (the 'Skilled Person/Independent Consultant'). In December 2012, HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions. HSBC's engagement with the Skilled Person appointed pursuant to the 2013 Direction was terminated in February 2020 and a new Skilled Person with a narrower mandate has been appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. A new Independent Consultant is also being appointed to continue to carry out an annual OFAC compliance review at the FRB's discretion.

US Anti-Terrorism Act Related Litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various companies of HSBC Group including HSBC Bank Middle East Limited and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in the Middle East.

In November 2014, a complaint was filed in the US District Court for the Eastern District of New York on behalf of representatives of US persons alleged to have been killed or injured in Iraq between April 2004 and November 2011 ('ATA Case 1'). The complaint was filed against HSBC Holdings, HSBC Bank plc, HSBC Bank USA and HSBC Bank Middle East Limited, as well as other non-HSBC banks and the Islamic Republic of Iran. The plaintiffs allege that the defendants violated the US Anti-Terrorism Act ('US ATA') by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. The defendants filed a Motion to Dismiss in May 2015 and an amended Motion to Dismiss in September 2017, following the filing by the Plaintiffs of a Second Amended Complaint in July 2017. In July 2017, the various motions before the Court were referred for review and for the issuance of a judicial report and recommendations, which was issued in July 2018, and which concluded that the New York District Court should deny the defendants' motion to dismiss. The defendants challenged this conclusion and in December 2019, the judge granted the defendants' motion to dismiss in ATA Case 1 which the plaintiffs appealed, with the case now pending before the Second Circuit

In November 2017, a complaint was filed in the Southern District of New York on behalf of representatives of US soldiers killed or injured whilst serving in Iraq ('ATA Case 2'). The complaint was filed against HSBC Holdings plc, HSBC Bank plc, HSBC Bank Middle East Limited, HSBC Bank USA, N.A, HSBC North America Holdings Inc. and other non-HSBC Banks. The plaintiffs allege that the HSBC defendants violated the US ATA by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US and also allege breaches of US Justice Against Sponsors of Terrorism Act ('JASTA'). In February 2020, the Court denied the Plaintiffs motion to amend their complaint and dismissed the case with prejudice against all but one non-HSBC defendants. The Plaintiffs may appeal the decision to the Second Circuit but have not yet done so.

In December 2018, three new cases and two cases relating to existing actions were filed in the New York District Court against the group and various HSBC companies, prompted by an expiry of the statute of limitations which applies to such ATA related claims. An additional ATA case was filed in April 2019 (the 'New ATA Cases'). The Court indicated that it would consolidate ATA Case 1 and two of the new ATA Cases to proceed to the second circuit however to date this has not transpired. The remainder of the e New ATA Cases are at a very early stage. Based on the facts currently known, it is not practicable at this time for HSBC to predict the timing of the resolution of ATA Case 2 or the New ATA Cases.

Based on the facts currently known, it is not practicable at this time for the Bank to predict the resolution of these matters, including the timing or any possible impact on the Bank or HSBC.

Foreign exchange rate investigations and litigation

Various regulators and competition authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews and settlements relevant to the Bank are detailed below.

In January 2021, HSBC Holdings exited its three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. HSBC Holdings entered into the FX DPA in January 2018, following the conclusion of the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, the DoJ is expected to file a motion to dismiss the charges deferred by the FX DPA in due course.

31 Related party transactions

The ultimate parent company of the Bank is HSBC Holdings plc, which is incorporated in England.

Copies of the HSBC Holdings plc financial statements may be obtained from the following address:

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

Related parties of the Bank include the parent, fellow branches, subsidiaries, associates, joint ventures, post-employment benefit plans for HSBC employees, Key Management Personnel as defined by IAS 24 'Related Party Disclosures', close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close family members. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Bank Middle East Limited and the Bank and includes members of the Boards of Directors of HSBC Bank Middle East Limited.

Particulars of transactions with related parties are tabulated below. The disclosure of the year-end balance and the highest amounts outstanding during the year is considered to be the most meaningful information to represent the amount of the transactions and outstanding balances during the year.

Key Management Personnel

The emoluments of a number of the Key Management Personnel are paid by other HSBC Group companies who make no recharge to the Bank. The HBME Directors are also Directors of a number of other HSBC Group companies and it is not possible to make a reasonable apportionment of their emoluments in respect of each of the companies. Accordingly, no emoluments in respect of the Directors paid by other HSBC Group companies and applicable to the Bank has been included in the following disclosure.

Transactions, arrangements and agreements including Key Management Personnel

Compensation of Key Management Personnel

	2020	2019
	AED000	AED000
Remuneration (wages and bonus)	**17,572**	20,966
Post-employment benefits	**1,268**	735
Share-based payments	**5,812**	5,674
Year ended 31 Dec	**24,652**	27,375

Transactions of the Bank with HSBC Holdings plc and fellow subsidiaries of HSBC Holdings plc

Transactions detailed below include amounts due to/from HSBC Holdings plc[1]

	2020		2019	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	AED000	**AED000**	AED000	AED000
Assets				
Prepayments, accrued income and other assets	**9,600**	**2,527**	8,144	8,144
Liabilities				
Accruals, deferred income and other liabilities	**44,649**	**17,982**	24,812	23,948

	For the year ended 31 Dec 2020	For the year ended 31 Dec 2019
	AED000	AED000
Income statement		
Other operating income	**5,579**	5,694
General and administrative expenses	**160,603**	108,258

Transactions detailed below include amounts due to/from fellow subsidiaries of HSBC Holdings plc[1]

	2020		2019	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	AED000	**AED000**	AED000	AED000
Assets				
Derivatives	**5,345,689**	**5,345,689**	3,446,070	3,052,210
Loans and advances to banks (including reverse repos)	**10,326,391**	**7,238,101**	7,161,844	5,481,052
Loans and advances to customers	**12,859**	**1,322**	2,477	140
Prepayments, accrued income and other assets	**1,432,337**	**618,942**	1,482.398	569,065
Liabilities				
Deposits by banks	**13,843,862**	**12,655,641**	10,052,598	10,052,598
Customer Accounts	**701,752**	**701,752**	520,894	120,768
Financial Liabilities designated at fair value	**697,591**	**357,851**	892,777	892,777
Derivatives	**5,946,054**	**5,575,026**	4,388,633	3,252,524
Subordinated amounts due	**—**	**—**	2,754,375	—
Accruals, deferred income and other liabilities	**4,158,997**	**217,282**	714,817	207,649
Off-balance sheet				
Guarantees	**4,088,818**	**4,050,827**	3,827,290	3,784,036
Documentary credit and short-term trade-related transactions	**1,544,399**	**368,227**	2,906,797	586,310

	For the year ended 31 Dec 2020	For the year ended 31 Dec 2019
	AED000	AED000
Income Statement		
Interest income	**15,386**	59,276
Interest expense	**65,553**	291,442
Fee income	**200,828**	210,809
Fee expense	**29,068**	53,135
Other operating income	**271,179**	305,557
General and administrative expenses	**422,451**	261,747

The above outstanding balances includes transactions between HBME and its subsidiaries. The transactions above arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Transactions between HSBC Bank Middle East Limited and its subsidiaries

Transactions detailed below include amounts due to/from HSBC Bank Middle East Limited and its subsidiaries[1]

	2020		2019	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	AED000	**AED000**	AED000	AED000
Assets				
Derivatives	**110,670**	**68,520**	38,022	20,199
Loans and advances to banks	**2,777,349**	**875,930**	4,174,994	1,960,742
Loans and advances to customers	**12,859**	**1,322**	2,477	140
Prepayments, accrued income and other assets	**186,560**	**186,560**	233,276	230,077
Liabilities				
Deposits by banks	**8,023,769**	**7,468,533**	6,361,035	6,361,035
Customer accounts	**131,327**	**131,327**	94,055	92,655
Derivatives	**191,463**	**191,463**	7,350	5,602
Accruals, deferred income and other liabilities	**1,806,671**	**7,222**	47,716	11,875
Subordinated Liabilities	**—**	**—**	2,754,375	—
Off-balance sheet				
Guarantees	**94,452**	**94,452**	26,190	26,190
Documentary credit and short-term trade-related transactions	**859,305**	**139,593**	51,645	51,645

1 *The bank has included derivative transactions with HSBC Bank Middle East Limited and its subsidiaries together with comparatives. Further, the bank has amended the comparatives to reflect the correct classification.*

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

32 Events after the balance sheet date

These accounts were approved by management on 23 March 2021 and authorised for issue.

Additional information

This section includes information that is important to a complete understanding of the group's *Annual Report and Accounts 2020* but is unaudited. It provides further information on the group's current top and emerging risks, liquidity and funding ratios, capital requirements and capital structure, and how we do business. Audited information on some of these topics is included in the notes on the financial statements, including Note 27 Risk Management.

Top and emerging risks

Our current top and emerging risks are as follows.

Macroeconomic & credit risks

The Covid-19 outbreak resulted in an unprecedented global economic slowdown, and combined with sustained low oil prices has resulted in a significant increase in credit stress in the portfolio. We increased the frequency and depth of monitoring activities on the portfolios, we performed stress tests and other sectorial reviews to identify portfolios or customers who were experiencing or were likely to experience financial difficulty as a result of Covid-19.

Geopolitical risks

Our operations and portfolios are exposed to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/ or physical damage to our assets. We continue to monitor emerging geopolitical developments on an ongoing basis and assess what impacts these may have on our portfolios, capital adequacy and liquidity as well as on our financial crime risk management framework.

Geopolitical risk in the Middle East remained heightened in early 2020 with the intensification of political tensions between Iran and its allies and the USA and their allies in the Gulf and whilst the incoming US President Biden has pledged to work towards resuming diplomacy, tensions remain. More generally, the inauguration of US President Biden signals a more multilateral approach in the Middle East however relations could be strained with some regional governments increasing the risk of sanctions. Rising US-China tensions during the Covid-19 pandemic has raised the prospects of Middle East and other governments being impacted and this could intensify in the longer term.

In August 2020, the UAE and Bahrain announced the normalization of relations with Israel and in early January 2021 Saudi Arabia, Bahrain, Egypt and the UAE announced the ending of the blockade of Qatar including the restoration of diplomatic relations and the reopening of land and sea borders. Both of these recent geopolitical developments are positive for regional stability and are expected to be beneficial for the GCC economy in the medium-term.

Given ongoing geopolitical tensions, the compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional reputations and political risks for the group. We continue to seek to monitor, assess and meet the legal requirements introduced by all jurisdictions in which we operate and maintain an open dialogue with the regulators on the impact of such requirements on our business and customers.

Extra-territorial applicability of legislations/ regulations

In the context of Ibor transition, we remain focused on providing alternative rate products and the supporting processes and systems to replace Ibors to make them available to our customers. We have invested to improve our compliance systems and controls in relation to global markets including enhancements to pricing and disclosure, order management and trade surveillance, front office supervision and framework for employee misconduct.

Evolving legal and regulatory frameworks across the region

We closely monitor for regulatory developments and engage with regulators, as appropriate, to help ensure that new regulatory requirements, such as those in response to Covid-19 are implemented effectively and in a timely way.

Operational and resilience risk

We continued to enhance our cybersecurity capabilities including threat detection and access control as well as back-up and recovery. We invested further to improve system resilience and service continuity and have upgraded our IT systems. To mitigate the risks arising from the receipt of services from third parties, we have strengthened our processes, controls and technology to assess and oversee third party service providers and have established a dedicated oversight forum for all new outsourcing activities.

Data management

We are improving data quality across our systems and strengthening our oversight of data management and aggregation. We are expanding the scope of critical data that is under governance and have implemented data controls to improve the reliability of data. We have implemented data privacy controls to comply with relevant data privacy laws in the jurisdictions in which we operate.

Financial Crime risk environment

We continued to support the business and our customers while continuing to manage financial crime risk. We continued to invest in both advanced analytics and artificial intelligence, which remain key components of our next generation of tools to fight financial crime. We increased our focus on fraud risks given the prevailing environment.

Climate and Sustainability Risk

We are developing a framework to identify, oversee and manage climate-related risks. Our risk management priorities are focusing on embedding a climate risk management framework including: assessing the physical and transition risk in our wholesale credit portfolio, reviewing retail mortgage exposures in respect of natural hazard risk and developing scenarios internally for risk management, planning and stress testing.

Model Risk

We strengthened our model risk management function including the appointment of a model risk steward, updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management. We refreshed and tested model risk controls.

Evolving Technology and Client Expectations

We are executing on planned initiatives to drive digital adoption and reduce manual transactions and are increasing our investment in technology to drive improved customer experience and operational efficiency.

People Risk

We continue to monitor workforce capacity and capability requirements and have put in place measures to ensure our people are properly supported and able to work safely during the Covid-19 outbreak. We have complied with the workforce nationalization requirements in all countries in which we operate and continue to invest in recruitment and retention of local nationals.

Liquidity and Funding Ratios

Liquidity coverage ratio ('LCR')

LCR

Unaudited

	2020	2019
	%	%
31 December	**280**	**202**

Net stable funding ratio ('NSFR')

NSFR

Unaudited

	2020	2019
	%	%
31 December	**164**	**159**

Capital requirement

The Bank's regulator, the Central Bank of the UAE ('CBUAE'), sets and monitors regulatory capital requirements. The Bank's objectives when managing capital are to:

- safeguard the Bank's ability to continue as a going concern; and
- comply with regulatory capital requirements set by the CBUAE.

The Bank's regulatory capital adequacy ratio is set by the CBUAE at a minimum level of 13.00% (2019: 13.00%).

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital comprises equity share capital, retained earnings, other comprehensive income and other reserves. This is adjusted for the amount of cash flow hedge reserve related to gains or losses on cash flow hedges of financial instruments, all unrealised gains or losses on liabilities that are valued at fair value and which result from changes in the bank's own credit quality and deduction for intangible assets.
- Tier 2 capital comprises of general provisions (which includes Stage 1 and Stage 2 ECLs and the general impairment reserve) limited to 1.25% of Credit Risk Weighted Assets.

In response to the Covid-19 pandemic, the CBUAE decided to extend and refresh its approach to IFRS9 transitional arrangements by introducing a prudential filter to smoothen the impact of Covid 19 related ECLs on banks' capital resources. The Bank, in response to the new regulation, starting 30 June 2020 elected to apply transitional arrangement for a 5-years transition period using dynamic approach as follows:

- Compare Stage 1and Stage 2 ECL provisions at the respective reporting date with the ECL provisions as at 31 December 2019.
- Add back 100% of the increased ECLs to its Core Equity Tier 1('CET1') capital in the 2020 and 2021 Financial Years. This add back will then be phased out on a straight line basis over the subsequent years i.e.2022-2024.

Below figures are post-application of the capital relief provided by the prudential filter:

Capital structure at 31 December

Unaudited

	2020	2019
	AED000	AED000
Composition of regulatory capital		
Common Equity Tier 1 capital	**12,641,159**	13,257,894
Additional Tier 1 capital	**—**	—
Total Tier 1 capital	**12,641,159**	13,257,894
Tier 2 capital	**876,778**	897,372
Total regulatory capital	**13,517,937**	14,155,266
Risk-weighted assets		
Credit and counterparty risk	**70,142,261**	71,789,754
Market risk	**8,238,868**	7,315,816
Operational risk	**9,000,433**	9,064,075
	87,381,562	88,169,645
Common Equity Tier 1 Capital Ratio	**14.47%**	15.04%
Capital ratio	**15.47%**	16.05%

How we do business

We conduct our business intent on supporting the sustained success of our customers, people and other stakeholders. This section outlines how we are working to meet our responsibilities in this regard.

Customers

We create value by providing customers with products and services that meet their needs in a way that fits seamlessly into their lives. We are open to feedback and aim to take action in a timely manner if things go wrong.

Digital and technology

We continue to invest in our digital and technology services to help make banking simpler and safer, prioritising assistance for customers, and providing digital solutions to support their growth ambitions. In 2020, over 96% of payments and transfers by our WPB customers in the UAE were completed through mobile and online banking and 63% of our customers were digitally active. We introduced new features to the UAE mobile app and achieved improved app ratings. We also introduced an online trading platform. Our corporate customers increased their use of our digital services, with mobile app downloads of our core corporate digital platform, HSBCnet, increasing 15% in 2020.

Customer satisfaction

We continue to evolve how we receive feedback from our customers to put them at the centre of decision making. To improve how we serve our customers, we are open to feedback and acknowledge when things go wrong. We continued to focus on staff training in each

of our global businesses and emphasise the importance of recording complaints. This will improve our complaint handling expertise and help ensure our customers are provided with fair outcomes.

Conduct

We are committed to providing customers with products that meet their needs. We have guidelines to help deliver fair outcomes for our customers as well as to help maintain orderly and transparent financial markets.

Covid-19

The Covid-19 outbreak has posed significant challenges for our customers. Our immediate priority has been to provide them with support and flexibility. This has included offering payment relief as part of government and regulatory schemes and our own relief measures. In the UAE, we provided relief to 3,153 retail customers and 143 wholesale customers. We have taken steps to keep many of our branches open while protecting customers and our colleagues. However, with customers doing more of their banking online, we have also deployed new technology, including video calls and digital signatures, to help enable them to engage with us in new ways.

Doing business responsibly

We uphold high standards of corporate governance and are committed to working with our regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing our industry. This includes working closely with regulators to help customers transition away from interbank offered rates. We are committed to protecting the information we hold and continue our efforts to combat financial crime. We respect global standards on human rights in our workplace and our supply chains.

Safeguarding data

The threat of cyber-attacks remains a concern for the HSBC Group, as it does across the entire financial sector. In 2020, we continued to strengthen our cyber defences to enhance our cybersecurity capabilities. We are committed to protecting and respecting the data we hold, and process, in accordance with the laws and regulations of the geographies in which we operate.

Financial crime risk management

We have continued our efforts to combat financial crime risks and reduce their impact on HSBC and the wider world. We have embedded a strong financial crime risk management framework across all global businesses and all countries and territories in which we operate. We continue to invest in new technology to enable us to make an impact in the fight against financial crime.

Respecting human rights

We recognise our role in respecting human rights, in line with the UN Guiding Principles' Protect, Respect and Remedy framework.

Employees

Our organisation has been shaped by the many cultures and communities we serve, 2,886 full time equivalent employees representing nearly 90 nationalities. Our culture is underpinned by our values of being open, connected and dependable. We are striving to build a fully inclusive organisation that prioritises well-being, invests in learning and careers and prepares our colleagues for the future of work.

The future of work

The Covid-19 outbreak taught us many roles can be undertaken effectively outside of our branches and offices, accelerating our focus on enabling greater flexibility in future working arrangements. Reskilling is also a key priority for us and we are investing in a programme to build future skills.

Inclusion

We continue efforts to build more gender-balanced teams. Female employees represent 44% of total employees and 33% of senior leaders (classified as 0–3 in our global career band structure). Initiatives to support employees with disabilities and to strengthen the ethnic and cultural diversity of our teams were also activated in 2020.

HSBC is highly engaged and committed to achieve the nationalisation requirements set by regulators in the region. In the UAE, HSBC supported the Central Bank's 2020 strategy to retain nationals in the banking sector and fully achieved its target. Going forward, HSBC is committed to achieve the country's vision of increasing Emiratis in the banking sector over the next couple of years, to ensure that not only job opportunities are available, but developmental and growth opportunities as well.

Well-being

The well-being of our people remains a key priority with focus on mental health, flexible working and financial capability. To celebrate World Mental Health Day, we participated in a global awareness campaign which included virtual mental health events featuring external experts providing our people with advice on a range of mental health-related topics including building resilience and how to manage stress.

Learning and skills development

We have a growing range of tools and resources to help colleagues take ownership of their development and career. This includes the HSBC University, our one-stop shop for learning, our My HSBC Career portal which offers career development resources and information on managing change, and our global mentoring system. Risk management remains central to development and is part of our mandatory training.

Employee engagement

The Group runs a Snapshot survey every six months with the results reported to executive committees and used by managers to plan and make decisions. In July 2020 we had a record response rate of 47% for Snapshot which reported a 68% score for Employee Engagement (compared to 61% in 2019). We encourage a 'speak up' culture. At times individuals may not feel comfortable speaking up through the usual channels and our global whistleblowing channel, HSBC Confidential, allows our colleagues and other stakeholders to raise concerns confidentially.

Covid-19

The Covid-19 outbreak tested our colleagues in many ways and they adapted quickly to the fast-changing environment. In branches, we introduced social distancing measures, provided personal protective equipment, reduced operating hours and offered virtual appointments. For office workers, we made sure cybersecurity controls and software supported home working. We worked closely with our people, supporting them to undertake activities that were outside their normal scope to help meet the needs of our customers, and to keep as many colleagues as possible engaged and working. We provided new and enhanced well-being support to employees. More than half of our colleagues participated in our Covid-19 well-being survey, with 86% saying they felt HSBC cares about their well-being.

Climate

To achieve our ambition to be a net zero bank, we can make changes both in our own operations, and for our customers through our financing portfolio.

Becoming a net zero bank

We aim to bring our operations and supply chain to net zero carbon emissions by 2030 or sooner. For our operational emissions, as electricity currently makes up the majority of our energy emissions, our aim is to reduce electricity consumption by 50% over the next 10 years and then transition the remainder to renewable energy. In 2020, our total carbon dioxide emissions were 15,927 tonnes, a reduction of almost 27% compared to 2011 (our baseline year).

Supporting our customers to thrive in transition

At the heart of our climate plan is a goal to align our financed emissions to the Paris Agreement goal of net zero by 2050 or sooner. This means making financing decisions with a consideration for climate change, and intensifying our support for customers in their transition to lower carbon emissions.

In 2020, the HSBC Group announced its aim to provide between $750bn and $1tn of financing and investment to support our customers to transition to lower carbon emissions. While the metrics and interim targets to measure this initiative are still in development, the Group has set out a high-level framework to facilitate the deployment of systems and processes to achieve our ambition.

Prior to this pledge, in 2017 the Group committed to financing or facilitating $100 billion in sustainable financing and investment by 2025. By 2020, globally, HSBC had reached approximately $90bn. HBME's cumulative contribution in the UAE was around AED 9.7 billion via products such as green, social and sustainable bonds, financing of renewable infrastructure projects and green loans. In 2020 we won the Euromoney Award for the Middle East's Best Bank for Sustainable Finance.

Sustainability risk management

We define sustainability risk as the risk that the financial services that we provide to customers, and our own activities, could contribute to unacceptable impacts on people or the environment. Our sustainability risk policies define our appetite for business in specific sectors, and seek to encourage customers to meet good international standards of practice. Where we identify activities that could cause material negative impacts, we will only provide finance if we can confirm customers are managing these risks responsibly. Our Reputational and Sustainability Risk team is responsible for reviewing, implementing and managing our sustainability risk policies. Our sustainability policies are being aligned with our approach to climate risk as well as our net zero commitments, and will be enhanced during 2021. We have established a Sustainability Risk Oversight Forum, made up of senior members of the Risk function and Global businesses.

Community

Throughout 2020, we have continued to focus on supporting the community with the future skills needed to thrive in a constant changing work environment and fostering sustainable business development. We also supported communities via Covid-19 relief measures and other projects with AED 16 million of charitable contributions and more than 942 volunteering hours (working and non-working).

Future Skills

We have supported more than 3,500 students, 300 teachers and 570 schools, with our two flagship programmes: Tatawwar and Taqaddam. These programmes aim to build the soft skills and entrepreneurship potential of youth across the region.

Entrepreneurship

We have supported 137 small and medium, and mid-market enterprises in advancing in their sustainability strategy and targets. This has been achieved through the flagship programmes implemented in the UAE and other countries across the Middle East: C3 Social Impact Accelerator, Living Business, Target Climate and TiE Sustainable Mentorship Programme.

HSBC Bank Middle East Limited

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www.hsbc.ae

HSBC Bank Middle East Limited

Incorporated in the Dubai international Financial Centre.
Regulated by the Central bank of the U.A.E and
lead regulated by the Dubai Financial Services Authority

HSBC bank Middle East limited - UAE Operations

HSBC Bank Middle East Limited – UAE Operations

Pillar III disclosures

For the year ended 31 December 2020

HSBC Bank Middle East Limited - UAE Operations
Pillar III Disclosures
for the year ended 31 December 2020

CONSOLIDATED CAPITAL STRUCTURE UNDER BASEL III

	AED'000
Tier 1 Capital	
Paid up share capital/common stock ...	4,495,255
Reserves...	8,664,577
Statutory reserve ...	2,247,628
Special reserve ...	-
General reserve ...	6,416,949
Minority interests in the equity of subsidiaries ...	-
Innovative capital instruments...	-
Other capital instruments ...	-
Surplus capital from insurance companies ...	-
	13,159,832
Less: Deductions for regulatory calculation ...	-
Less: Deductions from Tier 1 capital ...	(518,673)
Tier 1 Capital	**12,641,159**
Tier 2 capital	**876,778**
Less: Other deductions from capitals ...	-
Tier 3 capital ...	-
Total eligible capital after deductions ...	**13,517,937**

CONSOLIDATED CAPITAL STRUCTURE UNDER BASEL III

	AED'000
Capital Base	
Common Equity Tier 1 (CET1) Capital	
Share Capital	4,495,255
Share Premium	-
Eligible Reserves	2,378,745
Retained Earnings / (Accumulated Losses)	6,285,833
Eligible amount of minority interest	-
Capital shortfall if any	-
CET1 capital before the regulatory adjustments and threshold deduction	**13,159,832**
Less: Regulatory deductions	(518,673)
Less: Threshold deductions	-
Total CET1 capital after the regulatory adjustments and threshold deduction	**12,641,159**
Total CET1 capital after transitional arrangement for deductions (CET1)	**12,641,159**
Additional Tier 1 (AT1) Capital	
Eligible AT1 capital (After grandfathering)	-
Other AT1 Capital e.g. (Share premium, minority interest)	-
Total AT1 capital	**-**
Total AT1 capital after transitional arrangements (AT1)	**-**
Tier 2 (T2) Capital	
Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization)	-
Other Tier 2 capital (including General Provisions, etc.)	876,778
Total T2 Capital	**876,778**
Total T2 capital after transitional arrangements (T2)	**876,778**
Total Capital (CET1+AT1+T2)	**13,517,937**

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

Basis of Consolidation:

	Country of Incorporation	% Ownership	Description	Accounting Treatment	Surplus Capital	Capital Deficiencies	Total Interests
Subsidiaries………………………….	NA	NA	NA	NA	NA	NA	NA
Significant Investments…………….	NA	NA	NA	NA	NA	NA	NA

CAPITAL ADEQUACY

	Capital Charge AED'000	Capital Ratio %
Capital Requirements		
Credit Risk		
Standardised Approach……………………………………………………………...	7,364,937	
Foundation IRB……………………………………………………………………..	-	
Advanced IRB………………………………………………………………………	-	
Market Risk		
Standardised Approach………………………………………………………………..	865,081	
Models Approach…………………………………………………………………....	-	
Operational Risk		
Basic Indicator Approach……………………………………………………………	-	
Standardised Approach/ASA……………………………………………………...	945,045	
Advanced Measurement Approach……………………………………………………..	-	
Total Capital requirements	**9,175,064**	
Capital Ratio		
Total Capital Ratio for the Bank…………………………………………………………….		**15.47%**
Tier 1 ratio for the Bank…………………………………………………………………….		**14.47%**
Total for each significant bank subsidiary………………………………………………..		**NA**

CAPITAL ADEQUACY

Qualitative Disclosures
The Banks' policies around the management of Credit, Market and Operational risk are disclosed in the Financial Statements for the year ended 31 December 2020 as a part of Note 27.

Quantitative Disclosures

Capital Requirements	RWA AED'000	Capital Charge AED'000	Capital Ratio (%) %
Credit Risk - Standardized Approach……………………………………..	70,142,261	7,364,937	
Market Risk - Standardized Approach………………………………….	8,238,868	865,081	
Operation Risk			
Basic Indicator Approach…………………………………………..	-	-	
Standardised Approach/ASA………………………………………	9,000,433	945,045	
Advanced Measurement Approach………………………………..	-	-	
Total Capital requirements………………………………………		**9,175,064**	
Capital Ratio			
Total Capital Ratio for the Bank……………………………………….			**15.47%**
Tier 1 ratio for the Bank……………………………………………….			**14.47%**
Total for each significant bank subsidiary…………………………….			**NA**

Qualitative Disclosures

Definition of past due and impaired (for accounting purposes)

Credit-Impaired (stage 3)

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Risk rating scales

The customer risk rating ('CRR') 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All HSBC customers are rated using the 10- or 23-grade scale, depending on the degree of sophistication of the Basel II approach adopted for the exposure.

Retail lending credit quality is disclosed based on a 12-month point-in-time probability weighted probability of default.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term issue ratings are reported against the long-term rating of the issuer of those securities. If major rating agencies have different ratings for the same debt securities, a prudent rating selection is made in line with regulatory requirements.

Description of approaches followed for specific and general allowances and statistical methods

Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for Expected Credit Losses ('ECL') resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit- impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be purchased or originated credit-impaired ('POCI') and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit-impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps
Greater than 3.3 and not impaired	2x

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch
8.3	0 notch

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Bank calculates ECL using three main components, a probability of default, a loss given default and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The Bank leverages the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows.

Model	Regulatory capital	IFRS 9
PD	- Through the cycle (represents long-run average PD throughout a full economic cycle) - The definition of default includes a backstop of 90+ days past due, this has been modified to 180+ days past due for some portfolios	- Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) - Default backstop of 90+ days past due for all portfolios
EAD	- Cannot be lower than current balance	- Amortisation captured for term products
LGD	- Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) - Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data - Discounted using cost of capital - All collection costs included	- Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) - No floors - Discounted using the original effective interest rate of the loan - Only costs associated with obtaining/selling collateral included
Other		- Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Bank and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The Bank will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'Outer' scenarios, referred to as the Upside and Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Bank's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80% and the Upside and Downside scenarios 10% each, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product of UAE. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices across all the countries in which the Bank operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The Bank recognises that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgements

The calculation of the Bank's ECL under IFRS 9 requires the Bank to make a number of judgements, assumptions and estimates. The most significant are set out below:	
Judgements	**Estimates**
- Defining what is considered to be a significant increase in credit risk - Determining the lifetime and point of initial recognition of overdrafts and credit cards - Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions - Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	- The section, 'Measurement uncertainty and sensitivity analysis of ECL estimates' in the financial statements sets out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

Further details around the Bank's impairment policies can be found in the audited Financial Statements for the year ended 31 December 2020.

External Ratings

Qualitative information

Currently, the Bank has used the following three external rating agencies for determining risk weighted assets for all its exposures (which utilise external ratings): a) Moody's Investors Service; b) Standard & Poor's; and c) Fitch ratings.

Quantitative information

Loan portfolio as per the standardised approach

	AED'000									
	Gross credit exposures					Exposures subject to deduction				
Loan Portfolio	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA post CRM**	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA post CRM**
Claims on sovereigns………………	21,013,416	28,175,019	49,188,434	48,046,796	791,179	21,013,416	28,175,019	49,188,434	48,046,796	791,179
Claims on public sector entities……	-	2,451,023	2,451,023	2,407,369	26,177	-	2,451,023	2,451,023	2,407,369	26,177
Claims on multilateral development bank…………………………………	2,720,959	-	2,720,959	2,720,959	-	2,720,959	-	2,720,959	2,720,959	-
Claims on securities firms………………………………..	-	-	-	35,463,816	-	-	-	-	35,463,816	-
Claims on banks……………………	39,309,242	300,841	39,610,083	-	11,763,342	39,309,242	300,841	39,610,083	-	11,763,342
Claims on corporate………………..	13,091,658	83,500,666	96,592,324	51,986,791	46,341,030	13,091,658	83,500,666	96,592,324	51,986,791	46,341,030
Regulatory and other retail exposure…………………………….	-	9,750,459	9,750,459	4,062,811	3,057,511	-	9,750,459	9,750,459	4,062,811	3,057,511
Residential retail exposure………….	-	6,839,467	6,839,467	6,667,046	3,303,781	-	6,839,467	6,839,467	6,667,046	3,303,781
Commercial real estate……………..	-	-	-	-	-	-	-	-	-	-
Past due loans………………………	-	6,759,885	6,759,885	1,612,068	1,956,168	-	6,759,885	6,759,885	1,612,068	1,956,168
Other assets…………………………	-	3,872,589	3,872,589	-	2,902,914	-	3,872,589	3,872,589	-	2,902,914
Claims on securitised assets………..	-	-	-	3,872,589	-	-	-	-	3,872,589	-
Credit derivatives (Banks selling protection)………………………….	-	-	-	-	-	-	-	-	-	-
Total	**76,135,275**	**141,649,948**	**217,785,224**	**156,840,246**	**70,142,102**	76,135,275	141,649,948	217,785,224	156,840,246	70,142,102

Market risk as per the standardised approach

	AED'000
Interest rate risk	8,035,468
Equity position risk	-
Foreign exchange risk	203,400
Commodity risk	-
Total market risk capital charge	**8,238,868**

Interest rate risk in the banking book (IRRBB)

	AED'000	
Shift in yield curves	**Net interest income**	**Regulatory capital**
+200 basis point………………………………………………	559,528	12,641,159
- 200 basis point………………………………………………	(423,569)	12,641,159

Gross credit exposures by residual contractual maturity

	AED'000								
Contractual maturity	**Loans**	**Debt securities**	**Other assets**	**Total funded**	**Commitments***	**OTC derivatives***	**Other off-balance sheet exposures***	**Total non funded***	**Total**
Less than 3 months……………………….	33,476,171	10,499,295	35,979,586	79,955,052	2,561,250	3,148,478	-	5,709,728	**85,664,780**
3 months to one year……………………..	9,063,664	2,365,268	227,401	11,656,333	4,240,050	3,522,020	-	7,762,070	**19,418,403**
One to five years…………………………	15,839,026	8,368,224	407,832	24,615,082	5,983,713	7,173,487	-	13,157,200	**37,772,282**
Over five years…………………………..	14,938,326	-	400,310	15,338,636	8,816,495	1,915,837	-	10,732,332	**26,070,968**
Total	**73,317,188**	**21,232,787**	**37,015,129**	**131,565,104**	**21,601,508**	**15,759,821**	**-**	**37,361,330**	**168,926,433**

Note:
* these are converted to on balance sheet equivalent amounts

Gross credit exposures by currency type

	AED'000								
Currency type	**Loans**	**Debt securities**	**Other assets**	**Total funded**	**Commitments***	**OTC derivatives***	**Other off-balance sheet exposures***	**Total non funded***	**Total**
Foreign Currency………………………	44,173,466	21,232,787	9,033,852	74,440,105	12,255,041	14,453,342	-	26,708,382	**101,148,487**
AED……………………………………	29,143,722	-	27,981,277	57,124,999	9,346,467	1,306,480	-	10,652,947	**67,777,946**
Total	**73,317,188**	**21,232,787**	**37,015,129**	**131,565,104**	**21,601,508**	**15,759,821**	**-**	**37,361,330**	**168,926,434**

Note:
* these are converted to on balance sheet equivalent amounts

Gross credit exposures by geographic region

	AED'000								
	Loans	Debt securities	Other assets	Total funded	Commitments*	OTC derivatives*	Other off-balance sheet exposures*	Total non funded*	Total
Geographic Region									
United Arab Emirates ("UAE")…......	51,199,352	1,270,636	36,051,761	88,521,749	9,799,682	2,314,185	-	12,113,867	**100,635,616**
GCC Excluding UAE………………...	7,916,087	1,268,748	573,869	9,758,704	1,840,798	1,290,196	-	3,130,994	**12,889,698**
Arab League (excluding GCC)……….	2,214,305	-	318,326	2,532,631	551,674	34,917	-	586,590	**3,119,221**
Asia…………………………………..	2,823,657	187,384	-	3,011,041	1,391,112	308,620	-	1,699,732	**4,710,773**
Africa…………………………………	31,579	-	63,014	94,593	1,276	59,209	-	60,485	**155,078**
North America………………………..	1,491,832	5,720,133	-	7,211,965	375,608	28,268	-	403,876	**7,615,841**
South America………………………..	194,089	-	-	194,089	1,157,576	-	-	1,157,576	**1,351,665**
Caribbean……………………………..	74,715	-	-	74,715	555,310	131,994	-	687,304	**762,019**
Europe……………………………....	4,701,638	12,785,886	8,159	17,495,683	4,159,347	11,591,095	-	15,750,442	**33,246,125**
Australia………………………………	24,702	-	-	24,702	91,286	1,338	-	92,624	**117,326**
Others………………………………….	2,645,232	-	-	2,645,232	1,677,839	-	-	1,677,839	**4,323,071**
Total	**73,317,188**	**21,232,787**	**37,015,129**	**131,565,104**	**21,601,508**	**15,759,821**	**-**	**37,361,330**	**168,926,434**

Note:
* these are converted to on balance sheet equivalent amounts

Impaired exposures by geographic region

	AED'000							
	Pastdue			Provisions		Adjustments		
Geographic Region	**Less than 90 days**	**90 days and above**	**Total**	**Specific**	**General**	**Write-offs**	**Writebacks**	**Total Impaired Assets**
United Arab Emirates ("UAE")……………………………………….	1,553,833	4,520,771	6,074,604	3,608,717	7,769	663,247	26,107	**2,458,118**
GCC Excluding UAE………………………………………………….	1,023	5,009	6,032	204	-	-	-	**5,828**
Arab League (excluding GCC)………………………………………..	-	-	-	-	-	-	-	**-**
Asia…………………………………………………………………………	216	10,863	11,079	-	-	-	-	**11,079**
Africa…………………………………………………………………….	-	-	-	-	-	-	-	**-**
North America………………………………………………………………	1,424	9,789	11,213	-	-	-	-	**11,213**
South America………………………………………………………………	-	-	-	-	-	-	-	**-**
Caribbean……………………………………………………………...	-	18,400	18,400	18,399	-	-	-	**1**
Europe………………………………………………………………………	6,964	6,045	13,009	-	-	-	-	**13,009**
Australia…………………………………………………………………….	1,457	-	1,457	-	-	-	-	**1,457**
Others…………………………………………………………………….	-	-	-	-	-	-	-	**-**
Total	**1,564,917**	**4,570,877**	**6,135,794**	**3,627,321**	**7,769**	**663,247**	**26,107**	**2,500,705**

Note: Jurisdictions should not be included more than once under the geographic region

Gross credit exposures by industry segment

	AED'000								
Industry segment	**Loans**	**Debt securities**	**Other assets**	**Total funded**	**Commitments***	**OTC derivatives***	**Other off-balance sheet exposures***	**Total non funded***	**Total**
Agriculture, Fishing & related activities…………….	884	-	-	884	5,896	-	-	5,896	**6,780**
Crude Oil, Gas, Mining & Quarrying……………….	1,262,657	-	-	1,262,657	3,459	-	-	3,459	**1,266,116**
Manufacturing……………………………………….	6,344,665	-	-	6,344,665	2,340,763	268,713	-	2,609,475	**8,954,140**
Electricity& Water…………………………………..	3,136,746	-	-	3,136,746	3,235,924	398,016	-	3,633,940	**6,770,686**
Construction…………………………………………	7,335,698	-	-	7,335,698	4,680,047	52,952	-	4,732,999	**12,068,697**
Trade………………………………………………….	6,107,505	-	-	6,107,505	3,119,651	107,052	-	3,226,703	**9,334,208**
Transport, Storage & Communication………………	4,953,829	-	-	4,953,829	920,268	146,781	-	1,067,049	**6,020,878**
Financial Institutions………………………………..	17,258,619	681,172	40,549	17,980,340	4,216,499	14,665,644	-	18,882,143	**36,862,483**
Services……………………………………………..	9,974,130	-	-	9,974,130	2,531,296	11,527	-	2,542,823	**12,516,953**
Government………………………………………….	4,895,494	17,789,097	652,225	23,336,816	545,685	109,137	-	654,821	**23,991,637**
Retail/Consumer banking……………………………	11,094,974	-	-	11,094,974	2,021	-	-	2,021	**11,096,995**
All Others……………………………………………	951,987	2,762,518	36,322,355	40,036,860	1,677,839	-	-	1,677,839	**41,714,699**
Total	**73,317,188**	**21,232,787**	**37,015,129**	**131,565,104**	**23,279,347**	**15,759,821**	**-**	**39,039,169**	**170,604,273**

Note:
* these are converted to on balance sheet equivalent amounts

Impaired loans by industry segment

	AED'000							
	Pastdue			Provisions		Adjustments		
Industry Segment	**Less than 90 days**	**90 days and above**	**Total**	**Specific**	**General**	**Write-offs**	**Writebacks**	**Total Impaired Assets**
Agriculture, Fishing & related activities…………………..	-	-	-	-	-	-	-	**-**
Crude Oil, Gas, Mining & Quarrying……………………..	-	-	-	-	-	-	-	**-**
Manufacturing…………………………………………..	273,139	766,655	1,039,794	635,027	-	163,964	13,321	**404,767**
Electricity& Water……………………………………...	-	-	-	-	-	-	-	**-**
Construction…………………………………………….	378,093	1,738,103	2,116,196	949,554	-	83	8,873	**1,166,642**
Trade…………………………………………………….	69,276	959,960	1,029,236	783,059	-	28,049	3,556	**246,177**
Transport, Storage & Communication…………………….	-	8,680	8,680	186	-	18,637	-	**8,494**
Financial Institutions…………………………………….	-	-	-	-	-	12,119	-	**-**
Services………………………………………………….	608,989	481,168	1,090,157	789,181	-	13,861	91	**300,976**
Government……………………………………………..	-	-	-	-	-	-	-	**-**
Retail/Consumer banking……………………………….	209,891	341,068	550,959	277,555	7,769	390,832	-	**265,635**
All Others……………………………………………….	25,529	275,243	300,772	192,759	-	35,700	266	**108,013**
Total	**1,564,917**	**4,570,877**	**6,135,794**	**3,627,321**	**7,769**	**663,247**	**26,107**	**2,500,705**

Reconciliation of changes in provisions for loans

	AED'000
Opening Balance of provisions for loans	3,188,161
Add: Charge for the year	
- Specific provisions	1,454,903
- General provisions	652,875
	5,295,939
Less: Write-off of loans	(600,720)
Less: Write-back of provisions for loans	(26,881)
Closing Balance of provisions for loans	**4,668,338**

Credit risk as per the standardised approach

	AED'000					
	On balance sheet	**Off balance sheet**	**Total**			
Asset classes	**Gross outstanding**	**Net exposure after Credit Converison Factors (CCF)**	**Gross exposure before CRM**	**CRM**	**After CRM**	**Risk weighted assets**
Claims on sovereigns	47,410,704	545,685	49,188,434	12	48,046,796	791,179
Claims on non-central Government public sector entities (PSEs)	2,242,855	43,602	2,451,023	66,704	2,407,369	26,177
Claims on multilateral development banks	2,720,959	-	2,720,959	-	2,720,959	-
Claims on banks	23,257,793	3,946,306	39,610,083	6,708,176	35,463,816	11,763,342
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	34,796,716	16,645,135	96,592,324	4,321,765	51,986,791	46,341,030
Claims included in the regulatory retail portfolio	4,061,461	1,350	9,750,459	2,463	4,062,811	3,057,511
Claims secured by residential property	6,836,504	71	6,669,938	-	6,667,046	3,303,781
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	5,874,113	401,159	2,096,681	20,171	1,612,068	1,956,168
Higher-risk categories	-	-	-	-	-	-
Other assets	3,872,589	-	3,872,589	-	3,872,589	2,902,914
Claims on securitised assets	-	-	-	-	-	-
Credit derivatives (banks selling protection)	-	-	-	-	-	-
Total claims	**131,073,694**	**21,583,307**	**212,952,492**	**11,119,291**	**156,840,246**	**70,142,102**

Credit risk mitigation: Disclosures for standardised approach

	AED'000	
	Exposures	**Risk weighted assets**
Gross Exposures prior to credit risk mitigation……………………………...………………………………………………………	212,952,492	74,282,967
Less: Exposures covered by on-balance sheet netting…………………………………………………………………………………	-	-
Less: Exposures covered by eligible financial collateral……………………………………………………………………………	(7,821,803)	(1,415,009)
Less: Exposures covered by guarantees………………………………………………………………………………………………..	(3,297,488)	(2,725,856)
Less: Exposures covered by credit derivatives………………………………………………………………………………………	-	-
Net exposures after credit risk mitigation	**201,833,201**	**70,142,102**

EQUITY POSITION IN THE BANKING BOOK

a) Qualitative Disclosures

As at 31 December 2020, the bank's total equity investment portfolio in the banking book amounted to AED Nil, which represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note 2 of the financial statements under 'Significant Accounting Policies'. Details of fair value are reported in Note 11 of the financial statements under the heading of "Financial Investments".

b) Quantitative Disclosures

QUANTITATIVE DETAILS OF EQUITY POSITION:

	Current Year		Previous Year	
Type	**Publicly Traded**	**Privately Held**	**Publicly Traded**	**Privately Held**
Equities	-	-	-	-
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	-	-	-	-

REALISED, UNREALISED AND LATENT REVALUATION GAINS / (LOSSES) DURING THE YEAR:

Gains (Losses)	**AED'000**
Realised gains / (losses) from sales and liquidations	-
Unrealised gains / (losses) recognised in the balance sheet but not through profit and loss account	-
Latent revaluation gains / (losses) for investment recorded at cost but not recognised in balance sheet or profit and loss account	-
Total	**-**

ITEMS ABOVE INCLUDED IN TIER 1/TIER 2 CAPITAL:

Tier Capital	**AED'000**
Amount included in Tier I capital	-
Amount included in Tier II capital	-
Total	**-**

EQUITY POSITION IN THE BANKING BOOK

CAPITAL REQUIREMENTS BY EQUITY GROUPINGS

Grouping	AED'000
Strategic investments……………………………………………………………………………….	-
Available for sale………………………………………………………………………………………	-
Held for trading………………………………………………………………………………………..	-
Total capital requirement	**-**