HSBC Bank Middle East Limited - UAE Operations

Financial Statements 2021

HSBC

Contents

Presentation of Information

This document comprises the *Annual Report and Accounts 2021* for HSBC Bank Middle East Limited – UAE Operations ('the bank'). It contains the Financial Statements together with the Auditor's report and Additional information. References to 'HSBC' or 'the HSBC Group 'or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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 Bank") as at 31 December 2021, 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 Bank's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the income statement for the year then ended;
- the statement of 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 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 Bank 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 Additional information and the Sharia'a Supervisory Board Report set out on pages 66 to 73 (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 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.

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

Other information (continued)

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.

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 the 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 Bank'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 Bank'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 Bank to cease to continue as a going concern.

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 (continued)

- 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.

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
16 March 2022

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

Income statement

for the year ended 31 December

	Notes	2021 AED000	2020 AED000
Net interest income		**1,779,320**	2,283,695
– interest income		**1,893,454**	2,662,361
– interest expense		**(114,134)**	(378,666)
Net fee income	3	**1,153,085**	1,084,230
– fee income		**1,428,681**	1,328,811
– fee expense		**(275,596)**	(244,581)
Net income from financial instruments held for trading or managed on a fair value basis		**787,747**	661,402
Changes in fair value of designated debt and related derivatives	4	**(12,296)**	(18,382)
Gains less losses from financial investments		**41,011**	34,904
Other operating income, net		**291,427**	313,411
Net operating income before change in expected credit losses and other credit impairment and other credit risk provisions		**4,040,294**	4,359,260
Change in expected credit losses and other credit impairment charges	5	**260,134**	(2,017,067)
Net operating income		**4,300,428**	2,342,193
Employee compensation and benefits	6	**(1,564,252)**	(1,631,689)
General and administrative expenses		**(899,314)**	(819,675)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(97,425)**	(103,312)
Amortisation and impairment of intangible assets		**(83,876)**	(61,007)
Total operating expenses		**(2,644,867)**	(2,615,683)
Operating profit/(loss)	5	**1,655,561**	(273,490)
Profit/(loss) before tax		**1,655,561**	(273,490)
Tax expense	8	**(214,121)**	2,358
Profit/(loss) for the year		**1,441,440**	(271,132)
Attributable to:			
– shareholders of the parent company		**1,441,440**	(271,132)
Profit/(loss) for the year		**1,441,440**	(271,132)

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

	2021	2020
	AED000	AED000
Profit/(loss) for the year	**1,441,440**	(271,132)
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	**(95,324)**	69,267
– fair value gains/(losses)	**(146,953)**	41,077
– fair value gains transferred to the income statement on disposal	**41,016**	34,903
– expected credit losses recognised in income statement	**(198)**	885
– income taxes	**10,811**	(7,598)
Cash flow hedges	**(81,683)**	18,687
– fair value gains/(losses)	**(92,476)**	20,763
– income taxes	**10,793**	(2,076)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(96,794)**	32,575
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**5,396**	1,852
– fair value gains	**5,396**	1,852
Other comprehensive income/(expense) for the year, net of tax	**(268,405)**	122,381
Total comprehensive income/(expense) for the year	**1,173,035**	(148,751)

The accompanying notes on pages10 to 65 form an integral part of these financial statements.

Statement of financial position

at 31 December

	Notes	2021 AED000	2020 AED000
Assets			
Cash and balances at central banks		**2,479,265**	1,397,105
Items in the course of collection from other banks		**128,217**	94,741
Trading assets	*10*	**4,063,062**	2,723,985
Derivatives	*13*	**3,680,300**	6,672,843
Loans and advances to banks	*24*	**19,392,939**	21,399,336
Loans and advances to customers	*24*	**50,957,162**	50,970,665
Reverse repurchase agreements – non-trading		**18,000,696**	6,717,643
Financial investments	*14*	**33,941,281**	31,236,457
Prepayments, accrued income and other assets	*17*	**3,052,141**	3,607,627
Intangible assets	*18*	**467,584**	337,861
Deferred tax assets	*8*	**719,689**	797,494
Total assets		**136,882,336**	125,955,757
Liabilities and Head Office funds			
Liabilities			
Deposits by banks	*24*	**18,344,639**	12,718,407
Customer accounts	*24*	**77,822,607**	77,743,228
Repurchase agreements – non-trading		**8,692,427**	1,860,357
Items in the course of transmission to other banks		**1,949,495**	230,418
Trading liabilities	*19*	**2,270,309**	1,100,279
Financial liabilities designated at fair value	*20*	**4,275,274**	6,414,853
Derivatives	*13*	**3,450,860**	6,556,397
Debt securities in issue	*21*	**309,539**	596,617
Accruals, deferred income and other liabilities	*22*	**4,133,778**	4,195,364
Current tax liabilities		**161,142**	234,711
Provisions	*23*	**259,779**	267,541
Total liabilities		**121,669,849**	111,918,172
Head Office funds			
Allocated capital		**4,495,255**	4,495,255
Legal reserves		**2,247,628**	2,247,628
Other reserves		**798,166**	1,005,920
Unremitted profits		**7,671,438**	6,288,782
Total Head Office funds		**15,212,487**	14,037,585
Total liabilities and Head Office funds at 31 Dec		**136,882,336**	125,955,757

The accompanying notes on pages10 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	2021 AED000	2020 AED000
Cash flows from operating activities			
Profit/(loss) before tax		**1,655,561**	(273,490)
Adjustments for:			
Net (gain) from investing activities		**(41,245)**	(33,559)
Other non-cash items included in profit/(loss) before tax	26	**104,428**	2,401,793
Change in operating assets	26	**(1,736,561)**	(78,185)
Change in operating liabilities	26	**10,112,639**	6,630,092
Benefits paid		**(66,421)**	(58,612)
Tax paid		**(188,281)**	(238,627)
Net cash generated from operating activities		**9,840,120**	8,349,412
Cash flows from investing activities			
Net cash flows from the purchase and sale of property, plant and equipment		**(11,051)**	(16,374)
Net cash flows from sale/maturity of financial investments		**(1,703,844)**	2,425,091
Net investment in intangible assets		**(213,600)**	(186,511)
Net cash generated (used) in/ from investing activities		**(1,928,495)**	2,222,206
Cash flows from financing activities			
Transfer of profits to Head Office		**–**	(734,500)
Net debt securities issued/(repaid)		**(287,078)**	1,451
Net cash used in financing activities		**(287,078)**	(733,049)
Net increase in cash and cash equivalents		**7,624,547**	9,838,569
Cash and cash equivalents at 1 Jan[1]		**21,588,325**	11,749,756
Cash and cash equivalents at 31 Dec	26	**29,212,872**	21,588,325

1 *Cash and cash equivalents include mandatory deposits amounting to AED 1,903 million (2020: AED 829 million) 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	Other reserves: Financial assets at FVOCI reserves	Other reserves: Cash flow hedging reserve	Other reserves: Actuarial gains/ (losses) reserve	Other reserves: Other reserves[1]	Unremitted profits	Total Head Office funds
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2021	**4,495,255**	**2,247,628**	**103,196**	**94,467**	**(74,284)**	**882,541**	**6,288,782**	**14,037,585**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**1,441,440**	**1,441,440**
Other comprehensive income/(expense)-net of tax	**—**	**—**	**(95,324)**	**(81,683)**	**(96,794)**	**5,396**	**—**	**(268,405)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**(95,324)**	**—**	**—**	**—**	**—**	**(95,324)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– cash flow hedges	**—**	**—**	**—**	**(81,683)**	**—**	**—**	**—**	**(81,683)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**—**	**—**	**—**	**—**	**—**	**5,396**	**—**	**5,396**
– remeasurement of defined benefit asset/liability	**—**	**—**	**—**	**—**	**(96,794)**	**—**	**—**	**(96,794)**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the year	**—**	**—**	**(95,324)**	**(81,683)**	**(96,794)**	**5,396**	**1,441,440**	**1,173,035**
Transfer of profits to Head Office	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer to Impairment Reserve	**—**	**—**	**—**	**—**	**—**	**42,191**	**(42,191)**	**—**
Other movements	**—**	**—**	**—**	**—**	**—**	**18,460**	**(16,593)**	**1,867**
At 31 Dec 2021	**4,495,255**	**2,247,628**	**7,872**	**12,784**	**(171,078)**	**948,588**	**7,671,438**	**15,212,487**
At 1 Jan 2020	4,495,255	2,247,628	33,929	75,780	(106,859)	677,567	7,486,550	14,909,850
Profit 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
– Actuarial gains on defined benefit plans	—	—	—	—	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

1 *Other reserve includes the General Impairment Reserve of AED 653 million (2020: AED 653 million) and the Specific Impairment Reserve of AED 263 million (2020: 221 million) 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.*

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 2021

There were no new accounting standards or interpretations that had a significant effect on HSBC in 2021. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2022 that are applicable to the Bank. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2023 and 1 January 2024. 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 2023. 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) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements, capital resources and the impact of stressed scenarios on the group's operations.

(d) 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.

(e) 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.

(f) 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.

In 2021, the operating segment of Global Banking & Markets ('GB&M') has been re-segmented into Global Banking ('GB') and Markets and Securities Services ('MSS') as it aligns with the changes in the management structure and internal reporting to the EXCO. GB and MSS are separate reportable segments. MSS includes revenues for products and services sold to GB clients that are not necessarily reflected on a shared basis in the GB segment. The new reporting structure does not change the bank's management of its global GBM strategy. Comparatives have been re-presented to conform with the current year's presentation.

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 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) 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 ('GB') provides tailored financial solutions to major government, corporate and institutional clients worldwide. The client-focused business line delivers a full range of banking capabilities including structured financing, advisory, capital markets, liquidity and cash management services.
- Markets and Securities Services ('MSS') enables our corporate and institutional clients to access financial markets and liquidity, unlock investment opportunities, manage risk and transact seamlessly. Bringing together financing solutions; sales, trading and distribution across multiple asset classes; research; clearing and settlement; global and direct custody; and asset servicing.
- 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'except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

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.

(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 50.

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 44, '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.

Critical accounting estimates and judgements

The most significant critical accounting estimates relate to the determination of key assumptions applied in calculating the defined benefit pension obligation for the principal plan.

Judgements	Estimates
	• A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. • The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. • Key assumptions used in calculating the defined benefit pension obligation for the principal plan and the sensitivity of the calculation to different assumptions are described in Note 5.

(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

Assessing the probability and sufficiency of future taxable profits, taking into account the future reversal of existing taxable temporary differences and tax planning strategies including corporate reorganisations.

(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

The recognition and measurement of provisions requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation 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 estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider 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.

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.

(n) 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 the 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(e). In 2021, there was no impairment of non-financial assets based on comparing the carrying amount of the group's CGUs with their recoverable amount.

3 Net fee income

	2021 AED000	2020 AED000
Credit facilities	**99,272**	127,476
Remittances	**98,887**	96,233
Cards	**388,314**	352,080
Global custody	**49,105**	42,587
Import/exports	**149,174**	140,353
Account services	**60,490**	60,181
Insurance agency	**27,649**	40,383
Corporate/project finance	**64,224**	27,515
Unit trust	**70,894**	34,958
Performance/tender bonds	**136,311**	132,877
Others[1]	**284,361**	274,168
Total Fee Income	**1,428,681**	1,328,811
Fee Expense	**(275,596)**	(244,581)
Net Fee Income	**1,153,085**	1,084,230

1 *Others include intercompany fee of AED 178 million (2020: AED 201 million). Refer Note 33 for further details of Related Party Transactions.*

4 Changes in fair value of designated debt and related derivatives

	2021 AED000	2020 AED000
Net (expense)/income arising on:		
– other changes in fair value	**(12,296)**	(18,382)
Year ended 31 Dec	**(12,296)**	(18,382)

5 Operating profit/(loss)

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

	2021 AED000	2020 AED000
Income		
Interest recognised on financial assets measured at amortised cost	**1,797,356**	2,434,613
– of which: Interest recognised on impaired financial assets	***17,374***	*34,671*
Interest recognised on financial assets measured at FVOCI	**89,414**	224,510
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)	**1,250,413**	1,127,982
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value	**(67,412)**	(281,470)
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)	**(221,204)**	(215,513)
Restructuring provisions	**(43,788)**	(33,462)
Gains/(losses)		
Losses on disposal of property, plant and equipment, intangible assets and non-financial investments	**234**	(1,344)
Change in expected credit loss charges and other credit impairment charges	**260,134**	(2,017,067)
– loans and advances to banks and customers	**259,644**	(1,885,635)
– loans commitments and guarantees	**(2,199)**	(135,285)
– other financial assets	**2,495**	4,672
– debt instruments measured at fair value though other comprehensive income	**194**	(819)

6 Employee compensation and benefits

	2021 AED000	2020 AED000
Wages and salaries	**1,481,064**	1,543,663
Social security costs	**18,237**	16,697
Post-employment benefits	**64,951**	71,329
Year ended 31 Dec	**1,564,252**	1,631,689

Share-based payments

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

	2021	2020
	AED000	AED000
Restricted share awards	28,576	26,478
Savings-related and other share award option plans	44	206
Year ended 31 Dec	**28,620**	26,684

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans[1]

	Present value of defined benefit obligations[2]	Net defined benefit liability
	AED000	AED000
At 1 Jan 2021	**(482,196)**	**(482,196)**
Current service cost	(57,728)	(57,728)
– Current service cost	(57,728)	(57,728)
– Past service cost and gains from settlements	–	–
Net interest cost on the net defined benefit liability	(6,695)	(6,695)
Re-measurement effects recognised in other comprehensive income – actuarial gains	(96,794)	(96,794)
Exchange differences and other movements	(2,692)	(2,692)
Benefits paid	66,421	66,421
At 31 Dec 2021	**(579,684)**	**(579,684)**
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)

1 *There are no plan assets under defined benefit pension plans as at 31 Dec 2021 (31 Dec 2020: nil).*
2 *These are payable to employees immediately after resignation.*

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 2021	**1.38**	**3**	**8.90**
At 31 Dec 2020	1.48	0.25	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, government bonds.

The effect of changes in key assumptions on the principal plan

	United Arab Emirates	
	2021	2020
	AED000	AED000
Discount rate		
Change in scheme obligation at year end from a 25bps increase	(10,519)	(8,406)
Change in scheme obligation at year end from a 25bps decrease	9,098	8,670
Change in following year scheme cost from a 25bps increase	(107)	(1,833)
Change in following year scheme cost from a 25bps decrease	(826)	155
Rate of pay increase		
Change in scheme obligation at year end from a 25bps increase	16,720	9,356
Change in scheme obligation at year end from a 25bps decrease	(10,075)	(9,107)
Change in following year scheme cost from a 25bps increase	2,159	1,664
Change in following year scheme cost from a 25bps decrease	(1,905)	(944)

7 Auditors' remuneration

	2021	2020
	AED000	AED000
Audit fees payable to PwC	**3,149**	3,427
Year ended 31 Dec	**3,149**	3,427

Fees payable by the Bank to PwC

	2021	2020
	AED000	AED000
Fees for HSBC Bank Middle East Limited statutory audit[1]	**3,149**	3,427
– relating to current year	**3,149**	3,427
Fees for other services provided to the Bank	**2,266**	2,127
– audit-related assurance services[2]	**1,792**	1,748
– Other Assurance services	**474**	379
Year ended 31 Dec	**5,415**	5,554

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

	2021	2020
	AED000	AED000
Current tax	**136,316**	192,066
– for this year	**150,083**	208,224
– adjustments in respect of prior years	**(13,767)**	(16,158)
Deferred tax	**77,805**	(194,424)
Year ended 31 Dec	**214,121**	(2,358)

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:

	2021		2020	
	AED000	**%**	AED000	%
Profit/(loss) before tax	**1,655,561**		(273,490)	
Tax expense				
Taxation at UAE corporate tax rate of 20% (2020: 20%)	**331,112**	**20.0**	(54,698)	20.0
Adjustment in respect of prior period liabilities	**(13,766)**	**(0.8)**	(16,158)	5.9
Non-taxable income and gains	**(76,891)**	**(4.6)**	15,654	(5.7)
Permanent disallowables	**(15,977)**	**(1.0)**	10,151	(3.7)
Local taxes and overseas withholding taxes	**16,965**	**1.0**	15,372	(5.6)
Other items	**(27,322)**	**(1.7)**	27,321	(10.0)
Overall tax expense	**214,121**	**12.9**	(2,358)	0.9

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	**Others**	**Total**
	AED000	**AED000**	**AED000**
Assets	**694,750**	**102,744**	**797,494**
At 1 Jan 2021	**694,750**	**102,744**	**797,494**
Income statement	**(62,017)**	**(15,788)**	**(77,805)**
At 31 Dec 2021	**632,733**	**86,956**	**719,689**
Assets	**632,733**	**86,956**	**719,689**
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

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 nil (2020: AED 27 million).

Other information

In December 2021, the Organisation for Economic Co-operation and Development ('OECD') published model rules that provide a template for countries to implement a new Global Minimum Tax ('GMT') rate of 15% from 2023. In Jan 2022, the UAE Ministry of Finance ('MoF') announced the introduction of a Federal Corporate Tax ('FCT') in the UAE at 9%. The statutory rate for multinational enterprises, hasn't yet been announced. The impact will depend on the details of UAE's implementation of the FCT and the interaction with the GMT, as well as the profitability and local tax liabilities of HSBC group's operations in the UAE from 2023.

9 Segment analysis

Profit/(loss) for the period

	2021					
	Wealth and Personal Banking	Commercial Banking	Global Banking[1]	Markets and Securities Services[1]	Corporate Centre	Total
Full year	AED000	AED000	AED000	AED000	AED000	AED000
Net interest income	**733,901**	**409,153**	**479,502**	**151,633**	**5,131**	**1,779,320**
Net fee income	**361,053**	**325,118**	**333,330**	**134,015**	**(431)**	**1,153,085**
Net income from financial instruments held for trading or managed on a fair value basis	**138,258**	**88,141**	**827**	**563,193**	**(2,672)**	**787,747**
Other income	**48,753**	**60,395**	**27,974**	**7,251**	**175,769**	**320,142**
Net operating income before change in expected credit losses and other credit impairment charges	**1,281,965**	**882,807**	**841,633**	**856,092**	**177,797**	**4,040,294**
Change in expected credit losses and other credit impairment charges	**138,919**	**(167,196)**	**288,364**	**47**	**—**	**260,134**
Net operating income	**1,420,884**	**715,611**	**1,129,997**	**856,139**	**177,797**	**4,300,428**
Total operating expenses	**(1,018,138)**	**(587,548)**	**(470,118)**	**(299,759)**	**(269,304)**	**(2,644,867)**
Operating profit/(loss)	**402,746**	**128,063**	**659,879**	**556,380**	**(91,507)**	**1,655,561**
Profit/(loss) before tax	**402,746**	**128,063**	**659,879**	**556,380**	**(91,507)**	**1,655,561**
	2020					
Net interest income	993,062	517,959	548,918	229,863	(6,107)	2,283,695
Net fee income	309,184	324,694	307,065	156,790	(13,503)	1,084,230
Net income from financial instruments held for trading or managed on a fair value basis	145,363	74,860	9,256	432,438	(515)	661,402
Other income	49,310	45,140	33,246	(334)	202,571	329,933
Net operating income before loan impairment charges and other credit risk	1,496,919	962,653	898,485	818,757	182,446	4,359,260
Change in expected credit losses and other credit impairment charges	(417,748)	(1,052,930)	(545,888)	(501)	—	(2,017,067)
Net operating income	1,079,171	(90,277)	352,597	818,256	182,446	2,342,193
Total operating expenses	(1,072,324)	(562,963)	(472,515)	(280,272)	(227,609)	(2,615,683)
Operating profit/(loss)	6,847	(653,240)	(119,918)	537,984	(45,163)	(273,490)
Profit/(loss) before tax	6,847	(653,240)	(119,918)	537,984	(45,163)	(273,490)

1 *During the year, GB&M has been re-segmented into GB and MSS as it aligns with the changes in the management structure and internal reporting to the EXCO. Comparatives have been re-presented to conform with the current year's presentation.*

Balance sheet information

	2021					
	Wealth and Personal Banking	Commercial Banking	Global Banking	Markets and Securities Services	Corporate Centre	Total
	AED000	AED000	AED000	AED000	AED000	AED000
Loans and advances to customers (net)	**11,181,511**	**16,171,147**	**23,603,161**	**12**	**1,331**	**50,957,162**
Total assets	**39,698,149**	**27,111,184**	**36,297,287**	**28,534,802**	**5,240,914**	**136,882,336**
Customer accounts	**41,047,194**	**15,317,891**	**20,619,956**	**837,067**	**499**	**77,822,607**
Total liabilities	**52,817,565**	**21,277,678**	**25,108,858**	**17,167,459**	**5,298,289**	**121,669,849**
	2020					
Loans and advances to customers (net)	10,275,687	17,781,976	22,907,020	4,660	—	50,969,343
Total assets	37,851,857	27,452,071	33,082,380	22,420,718	5,148,731	125,955,757
Customer accounts	38,782,458	14,359,383	23,625,681	975,658	48	77,743,228
Total liabilities	45,599,434	18,631,859	26,484,702	18,064,968	3,137,209	111,918,172

10 Trading assets

	2021 AED000	2020 AED000
Trading assets:		
– not subject to repledge or resale by counterparties	**4,063,062**	2,723,985
At 31 Dec	**4,063,062**	2,723,985
Debt securities	**849,868**	825,705
Treasury and other eligible bills	**582,713**	271,596
Trading securities	**1,432,581**	1,097,301
Loans and advances to banks	**—**	486,024
Trading reverse repurchase agreements	**2,575,967**	1,011,534
Loans and advances to customers	**54,514**	129,126
At 31 Dec	**4,063,062**	2,723,985

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

	2021				2020			
	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	1,297,252	1,487,936	1,277,874	4,063,062	558,749	1,448,789	716,447	2,723,985
Derivatives	—	3,676,062	4,238	3,680,300	—	6,663,377	9,466	6,672,843
Financial investments	30,085,268	3,856,013	—	33,941,281	20,389,188	10,847,269	—	31,236,457
Liabilities								
Trading liabilities	660,809	1,609,500	—	2,270,309	511,009	589,270	—	1,100,279
Financial liabilities designated at fair value	—	4,275,274	—	4,275,274	—	6,414,853	—	6,414,853
Derivatives	—	3,438,984	11,876	3,450,860	—	6,546,404	9,993	6,556,397

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 2021 there was a transfer of AED nil (2020: 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
Other portfolios	**1,277,874**	**—**	**1,277,874**	**—**	**—**
Other Derivatives	**—**	**4,238**	**4,238**	**11,876**	**11,876**
At 31 Dec 2021	**1,277,874**	**4,238**	**1,282,112**	**11,876**	**11,876**
Other portfolios	716,447	—	716,447	—	—
Other Derivatives	—	9,466	9,466	9,993	9,993
At 31 Dec 2020	716,447	9,466	725,913	9,993	9,993

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 2021	**716,447**	**9,466**	**9,993**
Total gain/(losses) recognised in profit or loss	**18,528**	**(2,013)**	**(2,865)**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	**18,528**	**(2,013)**	**(2,865)**
Purchases	**775,592**	**—**	**7,951**
Settlements	**(287,207)**	**(3,215)**	**(3,203)**
Transfers in	**54,514**	**—**	**—**
At 31 Dec 2021	**1,277,874**	**4,238**	**11,876**
Unrealised (losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2021	**18,528**	**(2,013)**	**(2,865)**
– net expense from financial instruments held for trading or managed on a fair value basis	**18,528**	**(2,013)**	**(2,865)**
At 1 Jan 2020	293,706	20,740	1,782
Total 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[1]	430,585	16,229	16,290
Settlements	—	(22,754)	(8,079)
Transfers in	—	—	—
At 31 Dec 2020	716,447	9,466	9,993
Unrealised gains/(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)	—

1 *These are trading reverse repurchase agreements originated in prior period and the comparatives have been updated to reflect the correct classification as Level 3.*

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 Dec 2021				At 31 Dec 2020			
	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
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Derivatives and trading assets[1]	**—**	**(99)**	**—**	**—**	—	(7,973)	—	—
Total	**—**	**(99)**	**—**	**—**	—	(7,973)	—	—

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 2021					
Assets					
Loans and advances to banks	**19,392,939**	**–**	**19,447,873**	**–**	**19,447,873**
Loans and advances to customers	**50,957,162**	**–**	**–**	**50,945,604**	**50,945,604**
Reverse repurchase agreements – non-trading	**18,000,696**	**–**	**17,992,978**	**–**	**17,992,978**
Liabilities					
Deposits by banks	**18,344,639**	**–**	**18,382,581**	**–**	**18,382,581**
Customer accounts	**77,822,607**	**–**	**77,830,906**	**–**	**77,830,906**
Repurchase agreements – non-trading	**8,692,427**	**–**	**8,689,975**	**–**	**8,689,975**
Debt securities in issue	**309,539**	**–**	**309,539**	**–**	**309,539**
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

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.

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	**457,072,393**	**2,986,149**	**1,598,145**	**8,330**	**1,606,475**	**1,501,486**	**335**	**1,501,821**
Interest rate	**167,753,572**	**7,122,640**	**2,006,761**	**64,632**	**2,071,393**	**1,891,287**	**52,409**	**1,943,696**
Equities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Credit	**490,279**	**—**	**1,051**	**—**	**1,051**	**3,963**	**—**	**3,963**
Commodity and other	**467,901**	**—**	**1,381**	**—**	**1,381**	**1,380**	**—**	**1,380**
At 31 Dec 2021	**625,784,145**	**10,108,789**	**3,607,338**	**72,962**	**3,680,300**	**3,398,116**	**52,744**	**3,450,860**
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

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	**5,738,390**	**34,677**	**52,409**	**Derivatives**	**171,327**
At 31 Dec 2021	**5,738,390**	**34,677**	**52,409**		**171,327**
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)

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	**5,452,731**	**—**	**4,641**	**—**	**Financial Investments**	**(174,222)**		**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**—**	**—**	**—**	**—**	**L&A to Bank**	**3**		
Interest rate	**1,283,718**	**—**	**30,187**	**—**	**L&A to Cust**	**(7,370)**	**316**	
Interest rate	**—**	**150,217**	**—**	**1,892**	**Debt issued**	**5,253**		
Interest rate	**—**	**259,910**	**—**	**4,833**	**Depo by Bank**	**5,325**		
At 31 Dec 2021	**6,736,449**	**410,127**	**34,828**	**6,725**		**(171,011)**	**316**	
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)		
Interest rate	1,416,925	—	84,982	—	L&A to Cust	6,737	(4,777)	
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)	

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.

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	**2,986,149**	**8,330**	**335**	**Derivatives**	**217**	**217**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**1,384,250**	**29,955**	**—**	**Derivatives**	**(92,693)**	**(92,476)**	**—**	
At 31 Dec 2021	**4,370,399**	**38,285**	**335**		**(92,476)**	**(92,259)**	**—**	
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	—	

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 Bank has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting.

The most significant Ibor benchmark in which the Bank continues to have hedging instruments is US dollar Libor. It is expected that the transition out of US dollar Libor hedging derivatives will be largely completed by the end of 2022. These transitions do not necessitate new approaches compared with any of the mechanisms used so far for transition and it will not be necessary to change the transition risk management strategy.

For some of the Ibors included under the 'Other' header, in the table below, judgment has been needed to establish whether a transition is required, since there are Ibor benchmarks which are subject to computation methodology improvements and insertion of fallback provisions without full clarity being provided by their administrators on whether these Ibor benchmarks will be demised.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Bank that is expected to be directly affected by market-wide Ibors reform and in scope of Phase 1 and Phase 2 amendments.

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	—	—	**4,398,171**	—	**4,398,171**	**1,342,199**	**5,740,370**
Cash Flow Hedges	—	—	**367,305**	**1,017,000**	**1,384,305**	**2,986,149**	**4,370,454**
At 31 Dec 2021	—	—	**4,765,476**	**1,017,000**	**5,782,476**	**4,328,348**	**10,110,824**
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 2020	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

	2021	2020
	AED000	AED000
Financial investment measured at fair value through other comprehensive income		
Treasury and other eligible bills	**22,599,926**	11,195,275
Debt securities	**11,341,355**	20,041,182
At 31 Dec	**33,941,281**	31,236,457

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

Assets charged as security for liabilities

The fair value of assets pledged as collateral but that do not qualify for derecognition is AED 4,955 million (2020: AED 184 million). These transactions are conducted under terms that are usual and customary to repurchase agreements

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 23,055 million (2020: AED 8,752 million). The fair value of any such collateral sold or repledged is AED 5,329 million (2020: AED 1,663 million). The Bank is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

16 Joint arrangement

Joint arrangement of the Bank

	At 31 Dec 2021			
	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

	2021 AED000	2020 AED000
Prepayments and accrued income	**723,547**	647,974
Endorsements and acceptances	**994,487**	1,372,939
Other accounts	**424,578**	625,072
Property, plant and equipment[1]	**909,529**	961,642
At 31 Dec	**3,052,141**	3,607,627

1 As at 31 December 2021, net book value of HSBC Tower was AED 841 million (2020: AED 867 million) and depreciation charged during the year was AED 33 million (2020: AED 31 million).

18 Intangible assets

Intangible assets

Included within intangible assets is internally generated software with a net carrying value of AED 468 million (2020: AED 338 million).

During the year, capitalisation of internally generated software was AED 213 million (2020: AED 187 million), amortisation was AED 76 million (2020: AED 58 million) and impairment was AED 7 million (2020: AED 3 million).

19 Trading liabilities

	2021 AED000	2020 AED000
Deposits by banks	**—**	29,588
Repurchase agreements	**1,608,368**	559,682
Net short positions in securities	**661,941**	511,009
At 31 Dec	**2,270,309**	1,100,279

20 Financial liabilities designated at fair value

	2021 AED000	2020 AED000
Deposits by bank and customer accounts	**1,797,471**	1,899,857
Debt securities in issue (Note 21)	**2,477,803**	4,514,996
Total	**4,275,274**	6,414,853

At 31 December 2021, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of AED 32 million (2020: AED 53 million loss). As at 31 December 2021, the difference between the carrying amount and the amount contractually required to be paid at maturity was AED 61 million (2020: AED 176 million).

21 Debt securities in issue

	2021		2020	
	Carrying amount AED000	**Fair value AED000**	Carrying amount AED000	Fair value AED000
Medium-term notes	**2,787,342**	**2,787,342**	5,111,613	5,111,698
Total debt securities in issue	**2,787,342**	**2,787,342**	5,111,613	5,111,698
Included within:				
– financial liabilities designated at fair value (Note 20)	**(2,477,803)**	**(2,477,803)**	(4,514,996)	(4,514,996)
At 31 Dec	309,539	309,539	596,617	596,702

Movement in Debt securities in issue

	2021 AED000	2020 AED000
Balance as at 1 January	**596,617**	595,166
Repayments	**(287,078)**	—
Other movements[1]	**—**	1,451
At 31 December	**309,539**	596,617

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

22 Accruals, deferred income and other liabilities

	2021	2020
	AED000	AED000
Accruals and deferred income	**745,266**	617,981
Share-based payments liability to HSBC Holdings plc	**27,379**	24,239
Endorsements and acceptances	**1,002,837**	1,379,427
Employee benefit liabilities (Note 6)	**579,684**	482,196
Margin deposits	**860,556**	754,898
Transitory accounts	**34,629**	91,976
Other liabilities	**883,427**	844,647
At 31 Dec	**4,133,778**	4,195,364

23 Provisions

	Restructuring costs	Contractual commitments	Legal proceedings and regulatory matters	Other provisions	Total
	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2021	**27,476**	**227,137**	**343**	**12,585**	**267,541**
Additions	**43,788**	**—**	**2,023**	**6,129**	**51,940**
Amounts utilised	**(40,780)**	**—**	**(237)**	**—**	**(41,017)**
Unused amounts reversed	**(15,422)**	**—**	**(2,181)**	**(829)**	**(18,432)**
Net Change in expected credit loss provision	**—**	**(2,199)**	**—**	**—**	**(2,199)**
Exchange and other movements	**—**	**—**	**1,946**	**—**	**1,946**
At 31 Dec 2021	**15,062**	**224,938**	**1,894**	**17,885**	**259,779**
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

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.

Maturity analysis of assets and liabilities

	At 31 Dec 2021				
	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					
Trading assets	**2,627,086**	**1,009,841**	**426,135**	**—**	**4,063,062**
Derivatives	**3,614,777**	**14,808**	**47,914**	**2,801**	**3,680,300**
Loans and advances to banks	**17,457,920**	**1,783,403**	**151,616**	**—**	**19,392,939**
Loans and advances to customers	**14,780,294**	**6,114,348**	**21,678,811**	**8,383,709**	**50,957,162**
Reverse repurchase agreements – non-trading	**13,550,681**	**949,455**	**3,500,560**	**—**	**18,000,696**
Financial investments	**15,207,102**	**9,883,163**	**7,971,809**	**879,207**	**33,941,281**
Other financial assets	**1,833,654**	**199,772**	**7,589**	**—**	**2,041,015**
Total Financial assets	**62,829,651**	**18,930,141**	**33,310,385**	**9,262,916**	**124,333,093**
Non-Financial assets	**—**	**—**	**—**	**2,198,399**	**2,198,399**
Financial liabilities					
Deposits by banks	**13,079,518**	**4,181,732**	**1,083,389**	**—**	**18,344,639**
Customer accounts	**75,578,610**	**2,118,580**	**125,417**	**—**	**77,822,607**
Repurchase agreements – non-trading	**7,453,604**	**415,966**	**822,857**	**—**	**8,692,427**
Trading liabilities	**1,295,309**	**—**	**975,000**	**—**	**2,270,309**
Financial liabilities designated at fair value	**268,020**	**1,614,843**	**2,392,411**	**—**	**4,275,274**
Derivatives	**3,409,540**	**13,687**	**27,633**	**—**	**3,450,860**
Debt securities in issue	**—**	**150,217**	**159,322**	**—**	**309,539**
Other financial liabilities	**3,225,332**	**210,945**	**44,940**	**10,861**	**3,492,078**
Total Financial liabilities	**104,309,933**	**8,705,970**	**5,630,969**	**10,861**	**118,657,733**
Non-Financial liabilities	**—**	**—**	**—**	**1,062,621**	**1,062,621**
Loan and other credit-related commitments	**45,175,242**	**—**	**—**	**—**	**45,175,242**
Financial guarantees and similar contracts	**33,478,161**	**—**	**—**	**—**	**33,478,161**

Maturity analysis of assets and liabilities (continued)

	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					
Trading assets	2,292,117	—	431,868	—	2,723,985
Derivatives	6,462,351	139,250	71,242	—	6,672,843
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
Total Financial assets	61,639,642	11,959,372	30,084,853	9,099,282	112,783,149
Non-Financial assets	—	—	—	2,283,934	2,283,934
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
Trading liabilities	1,100,279	—	—	—	1,100,279
Financial liabilities designated at fair value	262,979	2,324,921	3,797,635	29,318	6,414,853
Derivatives	6,346,659	4,667	188,853	16,218	6,556,397
Debt securities in issue	—	181,734	414,883	—	596,617
Other financial liabilities	2,883,437	412,350	1,197	—	3,296,984
Total Financial liabilities	95,027,983	7,586,851	7,626,752	45,536	110,287,122
Non-Financial liabilities	—	—	—	1,400,632	1,400,632
Loan and other credit-related commitments	43,218,678	—	—	—	43,218,678
Financial guarantees and similar contracts	34,341,063	—	—	—	34,341,063

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	**13,079,520**	**4**	**4,181,737**	**1,083,388**	**—**
Customer accounts	**73,092,013**	**2,488,249**	**2,120,339**	**125,755**	**—**
Repurchase agreements – non-trading	**7,041,591**	**412,282**	**415,966**	**822,857**	**—**
Trading liabilities	**2,270,309**	**—**	**—**	**—**	
Financial liabilities designated at fair value	**9,859**	**269,076**	**1,640,479**	**2,416,707**	**—**
Derivatives	**3,402,820**	**6,719**	**13,687**	**27,633**	**—**
Debt securities in issue	**—**	**1,929**	**155,068**	**163,292**	**—**
Other financial liabilities	**3,974,670**	**994,581**	**212,372**	**47,881**	**12,000**
	102,870,782	**4,172,840**	**8,739,648**	**4,687,513**	**12,000**
Loan and other credit-related commitments	**45,175,242**	**—**	**—**	**—**	**—**
Financial guarantees and similar contracts	**33,478,161**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**181,524,185**	**4,172,840**	**8,739,648**	**4,687,513**	**12,000**
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

The above table shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives). For this reason, balances in the above table do not agree directly with those in our consolidated balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

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.

	Amounts subject to enforceable netting arrangements						
				Amounts not set off in the balance sheet			
	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)	**3,680,300**	**–**	**3,680,300**	**(2,978,379)**	**(28,446)**	**–**	**673,475**
Reverse repos, securities borrowing and similar agreements classified as:	**15,717,521**	**–**	**15,717,521**	**–**	**(15,717,521)**	**–**	**–**
– non-trading assets	**15,717,521**	**–**	**15,717,521**	**–**	**(15,717,521)**	**–**	**–**
Loans and advances to customers excluding reverse repos at amortised cost[1]	**1,180,004**	**–**	**1,180,004**	**–**	**–**	**(480,104)**	**699,900**
At 31 Dec 2021	**20,577,825**	**–**	**20,577,825**	**(2,978,379)**	**(15,745,967)**	**(480,104)**	**1,373,375**
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:	4,908,685	–	4,908,685	–	(4,908,685)	–	–
– non-trading assets	4,908,685	–	4,908,685	–	(4,908,685)	–	–
Loans and advances to customers excluding reverse repos at amortised cost[1]	1,567,972	–	1,567,972	–	–	(463,343)	1,104,629
At 31 Dec 2020	13,149,500	–	13,149,500	(5,623,156)	(5,013,550)	(463,343)	2,049,451
Financial liabilities							
Derivatives (Note 13)	**3,450,860**	**–**	**3,450,860**	**(2,978,379)**	**–**	**–**	**472,481**
Repurchase agreements – non trading	**8,692,427**	**–**	**8,692,427**	**–**	**(8,692,427)**	**–**	**–**
At 31 Dec 2021	**12,143,287**	**–**	**12,143,287**	**(2,978,379)**	**(8,692,427)**	**–**	**472,481**
Derivatives (Note 13)	6,556,397	–	6,556,397	(5,623,156)	–	–	933,241
Repurchase agreements – non trading	1,860,357	–	1,860,357	–	(1,860,357)	–	–
At 31 Dec 2020	8,416,754	–	8,416,754	(5,623,156)	(1,860,357)	–	933,241

1 *At 31 December 2021, the total amount of 'Loans and advances to customers' was AED 50,957 million (2020: AED 50,971 million), of which AED 1,180 million (2020: AED 1,568 million) was subject to offsetting.*

26 Notes on the statement of cash flows

Non-cash items included in profit before tax

	2021	2020
	AED000	AED000
Depreciation, amortisation and impairment	**181,301**	164,318
Share-based payment expense	**28,620**	26,684
Change in expected credit losses and other credit impairment charges	**(174,255)**	2,099,999
Provisions including pensions	**64,423**	99,123
Other non-cash items included in profit before tax	**4,339**	11,669
	104,428	2,401,793

Change in operating assets

	2021	2020
	AED000	AED000
Change in other assets	**422,042**	1,132,459
Change in net trading securities and net derivatives	**(282,041)**	(888,335)
Change in loans and advances to banks and customers	**1,565,842**	1,895,130
Change in reverse repurchase agreements – non-trading	**(3,442,404)**	(2,217,439)
	(1,736,561)	(78,185)

Change in operating liabilities

	2021 AED000	2020 AED000
Change in other liabilities	**(225,461)**	(1,149,436)
Change in deposits by banks and customer accounts	**5,705,611**	8,844,016
Change in financial liabilities designated at fair value	**(2,223,128)**	(2,950,830)
Change in provisions	**23,547**	25,985
Change in repurchase agreements – non-trading	**6,832,070**	1,860,357
	10,112,639	6,630,092

Cash and cash equivalents

	2021 AED000	2020 AED000
Cash and balances at central banks	**2,479,265**	1,397,105
Items in the course of collection from other banks	**128,217**	94,741
Loans and advances to banks of one month or less	**16,783,149**	17,410,972
Reverse repurchase agreement with banks of one month or less	**9,829,132**	1,988,483
Net settlement accounts	**206,085**	191,709
Treasury bills, other bills and certificates of deposit less than three months	**1,736,519**	735,733
Less: items in the course of transmission to other banks	**(1,949,495)**	(230,418)
Total cash and cash equivalents	**29,212,872**	21,588,325

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). There is a growing focus on the management of Climate Risk and its embedment in to how we do our business, conduct our operation and deal with all our stakeholders.

The implementation of our business strategy, which includes transformation programme, remains a key focus. As we implement change initiatives, we actively manage the execution risks. We aim to use a comprehensive risk management approach across the organization and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. The framework fosters continual monitoring promotes risk awareness and encourages a sound operational and strategic decision making process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities.

Our risk management framework

The following table and descriptions summarizes key aspects of the risk management framework, including governance, structure, our risk management tools and our culture, which together help align employee behaviour with our risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	Non-executive risk governance	The HBME Board approves the risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Risk Committee.
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk across the organization.
Roles and responsibilities	Three Lines Of Defence ('LOD') model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite Enterprise-wide risk management tools Active risk management: identification/assessment, monitoring, management and reporting	There are processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	There are systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

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.

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 define, identify and assess and have sufficient controls in place to manage, aggregate, report and govern the risk consistently across the Bank.This will help to grow our business safely within our appetite, deliver fair outcomes for customers and maintain the orderly and transparent operation of financial markets.

The HBME Board has overall accountability for risk across the Bank, approves the risk appetite, sets the 'tone from the top' regarding the strong culture expected across our organization and delegates responsibility for risk oversight to the Risk Committee and the Audit Committee. 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, 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.

The UAE Chief Risk Officer ('CRO') chairs the UAE RMM of the Executive Committee. The UAE RMM is a formal risk governance committee where members of the Executive Committee make recommendations and provide advice to the UAE CRO to help them carry out their role and responsibilities in relation to enterprise risk oversight over all risks, including compliance. Following the level of maturity achieved by the UAE Financial Crime Risk Management Meeting ('FCRMM') and the financial crime risk governance framework, the FCRMM responsibilities have been assumed by the UAE RMM. The membership of the Executive Committee ensures that the committee oversees risk management matters across the Three LOD. The UAE CRO is granted authority and accountability by the CEO to take decisions related to matters considered at the UAE RMM, except where decision-making authority is the responsibility of another member of the Executive Committee (e.g. finance-related decisions taken by the regional CFO).

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 has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. The second LOD reviews and challenges the first LOD's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The third LOD is internal audit.

We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximize shareholder value and profits. Non-financial risk is the risk of loss as a result of failed internal processes, people and systems, or from external events. Responsibility for minimizing both financial and non-financial risk lies with our people. They are required to manage the risk of the business and operational activities for which they are responsible. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our CRO. Sound non-financial risk management is central to achieving good outcome from our customers. We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, and provides a single view of the non-financial risk that matter the most and the associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, 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.

Risk appetite

Our risk appetite encapsulates the consideration of financial and non-financial risks. Bank's risk appetite is expressed in both quantitative and qualitative terms and applied at global business level, at the regional level and to material operating entities. Our risk appetite continues to evolve and expand its scope as part of this regular review process. HBME Board periodically reviews and approves the Entity risk appetite statement to ensure it remains fit for purpose. The risk appetite is considered, developed and enhanced through:

a. An alignment with our strategy, purpose, values, customer needs and HSBC Group Risk Appetite;

b. Trends highlighted in other risk reports;

c. Communication with risk stewards on the developing risk landscape;

d. Strength of our capital, liquidity and balance sheet;

e. Compliance with applicable laws and regulations;

f. Effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;

g. Functionality, capacity and resilience of available systems to manage risk; and

h. The level of available staff with the required competencies to manage risks.

Our Risk appetite is articulated in the Risk Appetite Statement ('RAS'). Setting out our risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The performance against the RAS is reported to the UAE RMM alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risk to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture

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 risk driver we are currently managing, which if not managed and mitigated has the potential to have a material impact on the Bank or Global Businesses. It may arise across any combination of risk types 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 defined as a risk that could have a material impact on the risk profile on the Bank or Global Businesses, but is not under active management and is not immediate. 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 2021 on Page 66.

Stress testing and recovery planning

Our stress testing programmes assesses our capital and liquidity strength through rigorous examination of our resilience to external shocks. As well as understanding regulatory-driven stress tests. We conduct our own internal stress tests in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Internal stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, as well as other potential events that are specific to the HSBC Group and the Bank.

The selection of stress scenarios is based upon the output of our identified top and emerging risks and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the region is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

In addition to the HSBC Group wide stress testing scenarios, HBME conducts regular macroeconomic and event-driven scenario and analyses specific to the region. The bank also participates, as required, in the regulatory stress testing programme.

The bank also conducts reverse stress tests each year to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

Recovery and resolution plan

Recovery and resolution plans form part of the integral framework safeguarding the HSBC Group's financial stability. The Recovery Plan together with Stress Testing help us understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate risk mitigating action.The bank remain committed to further developing its Recovery and Resolution capabilities in line with Resolvability Assessment Framework regulatory requirements.

Key developments in 2021

We continued to actively manage the risks resulting from the Covid-19 outbreak and its impacts on our customers and operations during 2021, as well as other key risks described in this section. In addition, we enhanced our risk management in the following areas:

- We accelerated the transformation of our approach to managing financial risks across the businesses and risk functions, including initiatives to enhance portfolio monitoring and analytics, credit risk, traded risk and treasury risk management, as well as the models used to manage financial risks.
- We continued to enhance our approach to portfolio and concentration risk management, through clearly defined roles and responsibilities, and improving our data and management information reporting capabilities.
- The Climate Risk Oversight Forum continues to shape and oversee our approach to climate risk. A Head of Climate Risk in support of our climate change strategy and to oversee the development of our climate risk management capabilities has been appointed. The climate risk programme continues to drive the delivery of our enhanced climate risk management approach.
- We continued to improve the effectiveness of our financial crime controls with a targeted update of our fraud controls. We refreshed our financial crime policies, ensuring they remained up-to-date and addressed changing and emerging risks, and we continued to meet our regulatory obligations.
- We introduced enhanced governance and oversight around model adjustments and related processes for IFRS 9 models.

Areas of special interest

Covid-19

The Covid-19 outbreak and its effect on the global economy have impacted our customers. The outbreak necessitated governments to respond at unprecedented levels to protect public health, and to support local economies and livelihoods. The resulting government support measures and restrictions have created additional challenges, given the rapid pace of change and significant operational demands. Renewed outbreaks emphasise the ongoing threat of Covid-19 and could result in significant further tightening of government restrictions following recent relaxations. There is a material risk of a renewed decline in economic activity and financial volatility if a new variant was to necessitate the imposition of broad lockdown measures.

Our Central scenario used to calculate impairment assumes that economic activity will continue to recover through 2022, surpassing peak pre-pandemic levels of GDP. It is assumed that the private sector expenditure growth accelerates, ensuring strong growth is sustained even as pandemic related fiscal support is rolled back. There is a high degree of uncertainty associated with economic forecasts in the current environment and there are significant risks to our Central scenario. The degree of uncertainty varies by market, driven by country-specific trends in the evolution of the pandemic and associated policy responses. As a result, our Central scenario for impairment has not been assigned an equal likelihood of occurrence across our key markets.

Governments and central banks in major economies have deployed extensive measures to support their local populations. Central banks in developed markets are expected to begin raising interest rates in 2022, but to move slowly and to keep monetary policy accommodative overall. Policy tightening in emerging markets has already begun in order to counteract rising inflation and the risk of capital outflows. Government debt has risen in most advanced economies, and is expected to remain high into the medium term. This could eventually pose a dilemma for central banks, as they face the conflicting aims of keeping debt servicing costs contained while preventing a steep rise in inflation.

The impact of the pandemic on the long-term prospects of businesses in the most vulnerable sectors of the economy – such as retail, hospitality and commercial real estate – remains uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of stress, fraudulent activity is often more prevalent, leading to potentially significant credit or operational losses.

As economic conditions improve, and government support measures come to an end, there is a risk that the outputs of IFRS 9 models may have a tendency to underestimate loan losses. Model outputs and management adjustments are closely monitored and independently reviewed at the Group and country level for reliability and appropriateness prior to inclusion in the financial results. We are continuing to redevelop models used to calculate capital levels and drive business decisions.

These include those related to credit and traded risk to address new and changing regulatory requirements to internal ratings-based methodologies, Ibor replacement and the fundamental review of the trading book.

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'). The TESS program has expired on 31 December 2021.

In 2020, the UAE Banking Regulators had issued Joint Guidance on the treatment of expected credit loss ('ECL') 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 2021	**AED000**	**AED000**			**AED000**	***AED000***	**AED000**	**AED000**	**AED000**	**AED000**
Personal										
– residential	**7,066,267**	**–**	**–**	**–**	**(66,297)**	***3,059***	**–**	**–**	**–**	**–**
– other personal	**4,524,508**	**15**	**–**	**202**	**(342,968)**	***42,748***	**15**	**–**	**–**	**–**
	11,590,775	**15**	**–**	**202**	**(409,265)**	***45,807***	**15**	**–**	**–**	**–**
Corporate and commercial										
– commercial, industrial and international trade	**21,648,409**	**341,638**	**1.58**	**943,091**	**(1,083,478)**	***139,045***	**119,356**	**349**	**222,282**	**9,067**
– commercial real estate and other property-related	**6,847,405**	**194,749**	**2.84**	**671,215**	**(1,275,748)**	***152,409***	**122,000**	**867**	**72,749**	**49,344**
– government	**6,248,304**	**–**	**–**	**–**	**(1,942)**	**–**	**–**	**–**	**–**	**–**
– other commercial	**7,307,048**	**–**	**–**	**–**	**(609,049)**	**–**	**–**	**–**	**–**	**–**
	42,051,166	**536,387**	**1.28**	**1,614,306**	**(2,970,217)**	***291,454***	**241,356**	**1,216**	**295,031**	**58,411**
Financial										
– non-bank financial institutions	**695,429**	**–**	**–**	**–**	**(726)**	**–**	**–**	**–**	**–**	**–**
Total	**54,337,370**	**536,402**	**0.99**	**1,614,508**	**(3,380,208)**	***337,261***	**241,371**	**1,216**	**295,031**	**58,411**

Gross loans and advances and deferral amounts to customers by industry sector (continued)

	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	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 1,670 million (2020: AED 3,073 million), representing an Exposure at Default of AED 1,615 million (2020: AED 3,149 million).As of 31 December 2021, HBME UAE has repaid all the TESS facility to the CBUAE (2020: AED 440 million) out of the total TESS facility limit of AED 1.7 billion provided by the CBUAE.

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 531 million (2020: AED 986 million) and Stage 3 ECL of AED 2,849 million (2020: 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		
	2021	2020		**2021**	2020	
At 31 Dec 2021	**AED000**	AED000	**% change**	**AED000**	AED000	**% change**
Personal						
– residential mortgages	**7,066,267**	6,762,464	**4.49**	**(66,297)**	(140,051)	**(52.66)**
– other personal	**4,524,508**	4,252,070	**6.41**	**(342,968)**	(598,665)	**(42.71)**
	11,590,775	11,014,534	**5.23**	**(409,265)**	(738,716)	**(44.60)**
Corporate and commercial						
– commercial, industrial and international trade	**21,648,409**	22,349,333	**(3.14)**	**(1,083,478)**	(1,373,666)	**(21.13)**
– commercial real estate and other property-related	**6,847,405**	7,614,711	**(10.08)**	**(1,275,748)**	(1,190,375)	**7.17**
– government	**6,248,304**	4,931,832	**26.69**	**(1,942)**	(6,508)	**(70.16)**
– other commercial	**7,307,048**	8,863,187	**(17.56)**	**(609,049)**	(1,110,892)	**(45.17)**
	42,051,166	43,759,063	**(3.90)**	**(2,970,217)**	(3,681,441)	**(19.32)**
Financial						
– non-bank financial institutions	**695,429**	626,002	**11.09**	**(726)**	(8,777)	**(91.73)**
Total	**54,337,370**	55,399,599	**(1.92)**	**(3,380,208)**	(4,428,934)	**(23.68)**
Exposure at default	**52,435,279**	52,435,279	**N/A**	**N/A**	N/A	**N/A**

Clients benefiting from deferrals – UAE At 31 Dec 2021			Number of clients deferred	Payment deferrals AED000	Exposure AED000	Impairment Allowance AED000
Segment	**Stage**	**Group**				
Retail banking	Stage 1	Group 1	**3**	**15**	**202**	**4**
		Group 2	**—**	**—**	**—**	**—**
	Total Stage 1		**3**	**15**	**202**	**4**
	Stage 2	Group 1	**—**	**—**	**—**	**—**
		Group 2	**—**	**—**	**—**	**—**
	Total Stage 2		**—**	**—**	**—**	**—**
	Stage 3	Group 1	**—**	**—**	**—**	**—**
		Group 2	**—**	**—**	**—**	**—**
	Total Stage 3		**—**	**—**	**—**	**—**
Total retail banking			**3**	**15**	**202**	**4**
Wholesale banking	Stage 1	Group 1	**5**	**155,898**	**327,106**	**577**
		Group 2	**—**	**—**	**—**	**—**
	Total Stage 1		**5**	**155,898**	**327,106**	**577**
	Stage 2	Group 1	**3**	**85,459**	**205,465**	**1,983**
		Group 2	**3**	**184,617**	**1,027,286**	**18,766**
	Total Stage 2		**6**	**270,076**	**1,232,751**	**20,749**
	Stage 3	Group 1	**—**	**—**	**—**	**—**
		Group 2	**5**	**110,414**	**110,414**	**55,951**
	Total Stage 3		**5**	**110,414**	**110,414**	**55,951**
Total wholesale banking			**16**	**536,388**	**1,670,271**	**77,277**

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 2021	AED000	AED000	AED000	AED000	AED000
Personal					
ECL allowance as of start of the year	**87,582**	**343,102**	**310,773**	**—**	**741,457**
Credit cards	**18,697**	**(192,685)**	**(20,737)**	**—**	**(194,725)**
Residential mortgages	**(4,079)**	**(8,797)**	**(64,510)**	**—**	**(77,386)**
Personal loans	**(10,348)**	**(27,040)**	**(19,715)**	**—**	**(57,103)**
Auto loans	**112**	**(601)**	**(1,220)**	**—**	**(1,709)**
Others	**12,921**	**(11,779)**	**658**	**—**	**1,800**
ECL allowance as of end of year	**104,885**	**102,200**	**205,249**	**—**	**412,334**
Corporate and commercial					
ECL allowance as of start of the year	**169,875**	**492,029**	**3,116,627**	**15,602**	**3,794,133**
Federal government	**(40)**	**—**	**—**	**—**	**(40)**
Emirates governments	**15,987**	**(19,791)**	**—**	**—**	**(3,804)**
GREs (Gov ownership >50%)	**15,932**	**(76,073)**	**—**	**(9,869)**	**(70,010)**
Other corporates	**(51,810)**	**(133,072)**	**(286,774)**	**(229)**	**(471,885)**
High Net Worth Individuals	**(980)**	**(1,018)**	**(194,506)**	**—**	**(196,504)**
SMEs	**(401)**	**(5)**	**3,312**	**—**	**2,906**
Banks	**(2,155)**	**(1,186)**	**—**	**—**	**(3,341)**
NBFI	**307**	**(10,571)**	**—**	**—**	**(10,264)**
Others	**—**	**—**	**—**	**—**	**—**
ECL allowance as of end of year	**146,715**	**250,313**	**2,638,659**	**5,504**	**3,041,191**

ECL movement during the year (continued)

	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 the 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 the 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 2021	**AED000**	**AED000**	**AED000**
Retail banking loans:			
Housing loans	**—**	**3,059**	**3,059**
Personal loans	**—**	**42,748**	**42,748**
Total retail banking loans	**—**	**45,807**	**45,807**
Wholesale banking loans:			
Non-government obligors	**—**	**291,454**	**291,454**
Total wholesale banking loans	**—**	**291,454**	**291,454**
As at 31 Dec 2020			
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

InterBank Offered Rates ('IBORs') such as the London Interbank Offered Rate ('LIBOR') are interest rates at which banks borrow money on unsecured terms in wholesale markets. These benchmarks have historically been used extensively to set interest rates across 5 major currencies, the Dollar, Sterling, Swiss Franc, Japanese Yen and the Euro across different types of financial transactions and for valuation purposes, risk measurement and performance benchmarking. Following the UK's Financial Conduct Authority ('FCA') announcement in July 2017 that it would no longer continue to persuade, or require panel banks to submit rates for the LIBOR after 2021, we have been actively working to transition legacy contracts from Ibor's and meet client needs for new replacement rates. For 2021, the focus has been to transition the non-USD Libor-linked portfolio following ICE Benchmark Administration Limited's ('IBA') decision to continue to publish US dollar ('LIBOR') for its most widely used settings until June 2023.

Through 2021, our IBOR transition programme ('the programme') developed IT and new near risk free replacement rate ('RFR') product capabilities, and implemented operational processes and controls to manage any heightened financial and non-financial risks whilst actively engaging with our clients to discuss options to transition their legacy contracts. HSBC met regulatory milestones to cease issuance of new ('LIBOR') contracts for the demising benchmarks through 2021, and expects to meet regulatory timelines to complete transition of our US dollar legacy contracts by mid-2023.

Financial reporting risks continue to exist with respect to off-balance sheet exposure reporting and application of accounting reliefs, both of which can be manually intensive. Off-balance sheet exposure is difficult to quantify, in some sites, given that notional facility data is not always held at benchmark level. The application of accounting reliefs relating to amendment of contracts will require detailed review and interpretation of contractual changes to appropriately apply accounting rules. There is a risk that differences in US dollar LIBOR and the replacement rate, Secured Overnight Funding rate ('SOFR'), create a basis risk that we need to actively manage. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of US dollar LIBOR alternatives across assets and liabilities. At present, derivative hedging solution on offer is 'compounded in-arrear' methodology as HSBC's global term SOFR derivative rollout is dependent on market developments potentially impacting our ability to provide certain types of hedges. Additionally, liquidity risk could potentially be present as the use of SOFR continues to build, or as alternative rates are brought to market. This could also result in delays to transition of legacy US dollar contracts into 2023 and potentially heightened operational risks at that point.

Our approach to transitioning the US dollar legacy contracts will differ by product and business area, but will be based on the lessons learned from the successful transition of those contracts which referenced IBORs which ceased at the end of 2021. We will continue to communicate with our clients and investors in a structured manner and be client led in the timing and nature of the transition. We continue to carry out extensive training, communication and client engagement to facilitate appropriate selection of rates and products. We continue to actively engage with regulatory and industry bodies to mitigate risks relating to any potential 'tough legacy' contracts.

For derivatives, we anticipate our exposure will continue to reduce through 2022 following the requirement to only transact trades for risk management purposes after 1 January 2022. However, we will continue to look to actively reduce our exposure by transitioning trades.

We will continue to work with our clients to determine their abilities to adhere and support them through the transition as required. Additionally, we are working with market participants to ensure we are able to transition contracts in large quantities as the US dollar LIBOR cessation date approaches. For the remaining demising Ibors, notably US dollar LIBOR, our Wholesale bank has begun to engage with clients with upcoming contract maturities with a view to refinancing at an appropriate replacement rate.

For our bond issuance, we have been discussing the ability to support RFR instead of LIBOR linked note issuances. The transition from the US dollar LIBOR, continues to be the programme's objective, with systems and processes being put in place to achieve this.

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 2021	**AED000**	**AED000**	**AED000**	**AED000**
Non-derivative financial assets				
Loans and advances to customers	**13,338,841**	**–**	**–**	**–**
Other financial assets	**2,858,566**	**–**	**–**	**–**
Total non-derivative financial assets	**16,197,407**	**–**	**–**	**–**
Non-derivative financial liabilities				
Other financial liabilities	**1,083,550**	**–**	**–**	**–**
Total non-derivative financial liabilities	**1,083,550**	**–**	**–**	**–**
Derivative notional contract amount				
Interest rate	**83,061,586**	**–**	**–**	**1,017,000**
Total derivative notional contract amount	**83,061,586**	**–**	**–**	**1,017,000**
At 31 Dec 2020				
Non-derivative financial assets				
Loans and advances to customers	14,863,231	38,302	–	–
Other financial assets	862,983	–	–	–
Total non-derivative financial assets	15,726,214	38,302	–	–
Non-derivative financial liabilities				
Financial liabilities designated at fair value	746,716	–	–	–
Other financial liabilities	2,871,778	–	–	–
Total non-derivative financial liabilities	3,618,494	–	–	–
Derivative notional contract amount				
Interest rate	101,931,534	411,106	–	7,151,130
Total derivative notional contract amount	101,931,534	411,106	–	7,151,130

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 30 June 2023, the date by which LIBOR is expected to cease;
- are recognised on the bank's balance sheet.

In March 2021, IBA announced that the publication date of most US dollar LIBOR tenors is extended from 31 December 2021 to 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021.

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 reports to 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.

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.

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 decreased from AED 4,557 million at 31 December 2020 to AED 3,474 million at 31 December 2021.

The IFRS 9 allowance for ECL at 31 December 2021 comprises AED 3,402 million (2020: AED 4,455 million) in respect of assets held at amortised cost and AED 72 million (2020: AED 103 million) in respect of loan commitments and financial guarantees.

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

	At 31 Dec 2021		At 31 Dec 2020	
	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	54,337,370	(3,380,208)	55,399,599	(4,428,934)
Loans and advances to banks at amortised cost	19,394,748	(1,809)	21,403,496	(4,160)
Other financial assets measured at amortised costs	22,231,584	(20,456)	10,347,678	(21,402)
– cash and balances at central banks	2,479,265	–	1,397,105	–
– items in the course of collection from other banks	128,217	–	94,741	–
– reverse repurchase agreements – non-trading	18,000,696	–	6,717,643	–
– prepayments, accrued income and other assets	1,623,406	(20,456)	2,138,189	(21,402)
Total gross carrying amount on-balance sheet	**95,963,702**	**(3,402,473)**	87,150,773	(4,454,496)
Loans and other credit related commitments	19,744,862	(31,818)	17,639,876	(59,127)
Financial guarantees	1,931,318	(39,693)	2,035,952	(43,370)
Total nominal amount off-balance sheet	**21,676,180**	**(71,511)**	19,675,828	(102,497)

	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')	33,942,697	(1,416)	31,236,457	(1,614)

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 2021

	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	42,654,220	7,632,375	4,029,478	21,297	54,337,370	(222,285)	(308,835)	(2,843,583)	(5,505)	(3,380,208)
Loans and advances to banks at amortised cost	19,394,631	117	–	–	19,394,748	(1,788)	(21)	–	–	(1,809)
Other financial assets measured at amortised cost	21,960,432	248,472	22,680	–	22,231,584	(1,145)	(1,634)	(17,677)	–	(20,456)
Loan and other credit-related commitments	18,964,892	776,050	3,920	–	19,744,862	(18,624)	(12,873)	(321)	–	(31,818)
Financial guarantees	1,207,034	698,920	25,364	–	1,931,318	(8,902)	(30,785)	(6)	–	(39,693)
At 31 Dec 2021	**104,181,209**	**9,355,934**	**4,081,442**	**21,297**	**117,639,882**	**(252,744)**	**(354,148)**	**(2,861,587)**	**(5,505)**	**(3,473,984)**

	ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total
	%	%	%	%	%
Loans and advances to customers at amortised cost:	0.5	4.0	70.6	25.8	6.2
Loans and advances to banks at amortised cost	–	17.9	–	–	–
Other financial assets measured at amortised cost	–	0.7	77.9	–	0.1
Loan and other credit-related commitments	0.1	1.7	8.2	–	0.2
Financial guarantees	0.7	4.4	–	–	2.1
At 31 Dec 2021	**0.2**	**3.8**	**70.1**	**25.8**	**3.0**

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

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. Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to Banks's top and emerging risks. In the second quarter of 2020, to ensure that the severe risks associated with the pandemic were appropriately captured, management added a fourth, more severe, scenario to use in the measurement of ECL. Starting in the fourth quarter of 2021, Bank's methodology has been adjusted so that the use of four scenarios, of which two are downside scenarios, is the standard approach to ECL calculation. Three of the scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters.

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 helping to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information. 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.

The forecast macro-economic scenarios have continued to show improvement, therefore the management has decided to increase the probability weight of the Central scenario due to higher confidence in the forecast outcomes. As a result, Central scenario has been assigned a weighting of 70%, the Downside scenario 20% 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 (2022Q1–2026Q4)

	UAE
Probability (%)	**70**
GDP growth rate (%)	
2022: Annual average growth rate	**4.4**
2023: Annual average growth rate	**3.4**
2024: Annual average growth rate	**3.0**
5-year average	**3.2**
Oil price (US$)	
2021: Average oil price	**71.1**
2022: Average oil price	**69.5**
2023: Average oil price	**66.6**
2024: Average oil price	**65.2**
5-year average	**67.4**
House price growth (%)	
2022: Annual average growth rate	**4.9**
2023: Annual average growth rate	**0**
2024: Annual average growth rate	**2.1**
5-year average	**2.7**

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**	**20**	**5**
GDP growth rate (%)	**10.8 (1Q22)**	**(2) (4Q22)**	**(12.5) (4Q22)**
Oil price (US$)	**100.1 (2Q22)**	**34.88 (4Q22)**	**26.45 (1Q23)**
House price growth (%)	**14.4 (2Q22)**	**(6.6) (1Q23)**	**(16.2) (4Q22)**

How economic scenarios are reflected in the wholesale calculation of ECL

The Bank 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 2021[1]

	UAE	
	2021	2020
Reported ECL (AEDm)[2]	**580**	918
Gross carrying/nominal amount (AEDm)[3]	**164,407**	164,444
Consensus central scenario	**448**	885
Consensus upside scenario	**268**	698
Consensus downside scenario	**786**	1,212
Additional downside scenario	**2,611**	1,968

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 2021	UAE					
AEDm	Gross carrying amount	Reported ECL[2]	Central scenario ECL	Upside scenario ECL	Downside scenario ECL	Additional Downside scenario ECL
Mortgages	**7,279**	**165**	**162**	**154**	**169**	**209**
Credit cards	**1,576**	**158**	**151**	**107**	**198**	**301**
Other	**2,259**	**70**	**66**	**48**	**77**	**92**

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

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.

No offset has been applied to off-balance sheet collateral. In the case of derivatives, the offset column also includes collateral received in cash and other financial assets.

Maximum exposure to credit risk

	2021			2020		
	Maximum exposure	Offset	Net	Maximum exposure	Offset	Net
	AED000	AED000	AED000	AED000	AED000	AED000
Loans and advances to customers held at amortised cost	**50,957,162**	**(480,104)**	**50,477,058**	50,970,665	(463,343)	50,507,322
Loans and advances to banks held at amortised cost	**19,392,939**	**–**	**19,392,939**	21,399,336	–	21,399,336
Reverse repurchase agreements – non-trading[1]	**18,000,696**	**–**	**18,000,696**	6,717,643	–	6,717,643
Derivatives	**3,680,300**	**(3,007,043)**	**673,257**	6,672,843	(5,728,020)	944,823
Total off-balance sheet	**78,413,524**	**–**	**78,413,524**	77,332,603	–	77,332,603
– financial guarantees and similar contracts	**33,285,041**	**–**	**33,285,041**	34,173,053	–	34,173,053
– loan and other credit-related commitments	**45,128,483**	**–**	**45,128,483**	43,159,550	–	43,159,550

1 *The disclosure has been updated to align to the HSBC Group approach.*

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 2021

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	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 2021	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)
Transfers of financial instruments:	15,748,640	(312,271)	(16,203,878)	459,625	455,238	(147,354)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(6,827,567)	44,650	6,827,567	(44,650)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	22,576,207	(356,921)	(22,576,207)	356,921	–	–	–	–	–	–
– Transfers to Stage 3	–	–	(773,307)	213,600	773,307	(213,600)	–	–	–	–
– Transfers from Stage 3	–	–	318,069	(66,246)	(318,069)	66,246	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	162,102	–	(41,253)	–	(352)	–	–	–	120,497
Net new and further lending/(repayments)	(6,661,715)	156,027	6,206,936	64,245	(727,937)	(136,335)	(31,779)	(616)	(1,214,495)	83,321
Assets written off	–	–	–	–	(889,514)	889,514	(10,713)	10,713	(900,227)	900,227
Others	–	–	–	–	–	(21,982)	–	–	–	(21,982)
At 31 Dec 2021	82,220,777	(251,599)	9,107,462	(352,514)	4,058,762	(2,843,910)	21,297	(5,505)	95,408,298	(3,453,528)
ECL release/(charge) for the period	–	318,126	–	22,993	–	(136,687)	–	(615)	–	203,817
Recoveries	–	–	–	–	–	83,390	–	–	–	83,390
Others	–	–	–	–	–	(3)	–	–	–	(3)
Total ECL (charge)/ release for the period	–	318,126	–	22,993	–	(53,300)	–	(615)	–	287,204

	At 31 Dec 2021		Twelve months ended 31 Dec 2021
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	AED000	AED000	AED000
As above	95,408,298	(3,453,528)	287,204
Other financial assets measured at amortised cost	1,382,712	(20,456)	(2,495)
Performance and other guarantees not considered for IFRS 9	N/A	N/A	(24,381)
Non-trading reverse purchase agreement commitments	18,000,696	–	–
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	114,791,706	(3,473,984)	260,328
Debt instruments measured at FVOCI	33,942,697	(1,416)	(194)
Change in expected credit losses and other credit impairment charges	N/A	(3,475,400)	260,134

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 new and further lending/(repayments) and changes in risk parameters	–	71,677	–	(279,442)	–	(20,022)	–	–	–	(227,787)
Net new and further lending/(repayments)	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
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)/release 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)
Total allowance for ECL/total income statement ECL charge for the period	N/A	(4,558,607)	(2,017,067)

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 2021

	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 2021	**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)**
Transfers of financial instruments:	**15,290,130**	**(187,464)**	**(15,541,619)**	**199,593**	**251,489**	**(12,129)**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**77,740**	**–**	**(29,632)**	**–**	**–**	**–**	**–**	**–**	**48,108**
Net new and further lending/(repayments) and changes in risk parameters	**(7,220,041)**	**132,883**	**6,010,644**	**71,756**	**(615,089)**	**(117,016)**	**(31,779)**	**(616)**	**(1,856,265)**	**87,007**
Assets written off	**–**	**–**	**–**	**–**	**(628,886)**	**628,886**	**(10,713)**	**10,713**	**(639,599)**	**639,599**
Others	**–**	**2**	**–**	**–**	**–**	**(21,774)**	**–**	**–**	**–**	**(21,772)**
At 31 Dec 2021	**66,041,078**	**(146,714)**	**8,533,633**	**(250,312)**	**3,698,028**	**(2,638,661)**	**21,297**	**(5,505)**	**78,294,036**	**(3,041,192)**
ECL release/(charge) for the period	**–**	**210,623**	**–**	**42,123**	**–**	**(117,016)**	**–**	**(615)**	**–**	**135,115**
Recoveries	**–**	**–**	**–**	**–**	**–**	**15,321**	**–**	**–**	**–**	**15,321**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total ECL (charge)/ release for the period	**–**	**210,623**	**–**	**42,123**	**–**	**(101,695)**	**–**	**(615)**	**–**	**150,436**

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)/release for the period	—	(45,354)	—	(445,694)	—	(1,050,073)	—	—	—	(1,541,121)

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 2021

	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 2021	**15,162,862**	**(87,582)**	**1,039,797**	**(343,102)**	**530,461**	**(310,773)**	**16,733,120**	**(741,457)**
Transfers of financial instruments:	**458,510**	**(124,807)**	**(662,259)**	**260,032**	**203,749**	**(135,225)**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**84,362**	**—**	**(11,621)**	**—**	**(352)**	**—**	**72,389**
Net new and further lending/(repayments) and changes in risk parameters	**558,327**	**23,142**	**196,291**	**(7,511)**	**(112,848)**	**(19,319)**	**641,770**	**(3,688)**
Assets written off	**—**	**—**	**—**	**—**	**(260,628)**	**260,628**	**(260,628)**	**260,628**
Others	**—**	**—**	**—**	**—**	**—**	**(208)**	**—**	**(208)**
At 31 Dec 2021	**16,179,699**	**(104,885)**	**573,829**	**(102,202)**	**360,734**	**(205,249)**	**17,114,262**	**(412,336)**
ECL release/(charge) for the period	**—**	**107,503**	**—**	**(19,130)**	**—**	**(19,671)**	**—**	**68,702**
Recoveries	**—**	**—**	**—**	**—**	**—**	**68,070**	**—**	**68,070**
Others	**—**	**—**	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Total ECL (charge)/release for the period	**—**	**107,503**	**—**	**(19,130)**	**—**	**48,396**	**—**	**136,769**

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
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)/release for the period	—	60,431	—	(428,200)	—	(51,163)	—	(418,932)

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 2021

	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	**16,140,854**	**17,977,799**	**12,564,225**	**3,619,511**	**4,034,981**	**54,337,370**	**(3,380,208)**	**50,957,162**
Loans and advances to banks held at amortised cost	**17,591,241**	**1,414,292**	**389,098**	**117**	**–**	**19,394,748**	**(1,809)**	**19,392,939**
Cash and balances at central banks	**2,479,265**	**–**	**–**	**–**	**–**	**2,479,265**	**–**	**2,479,265**
Items in the course of collection from other banks	**128,217**	**–**	**–**	**–**	**–**	**128,217**	**–**	**128,217**
Reverse repurchase agreements – non-trading	**15,829,555**	**1,203,498**	**967,643**	**–**	**–**	**18,000,696**	**–**	**18,000,696**
Prepayments, accrued income and other assets	**315,341**	**335,029**	**860,477**	**89,878**	**22,681**	**1,623,406**	**(20,456)**	**1,602,950**
– endorsements and acceptances	**63,018**	**335,029**	**504,337**	**89,878**	**10,574**	**1,002,836**	**(8,349)**	**994,487**
– accrued income and other	**252,323**	**–**	**356,140**	**–**	**12,107**	**620,570**	**(12,107)**	**608,463**
Debt instruments measured at fair value through other comprehensive income	**33,941,281**	**–**	**–**	**–**	**–**	**33,941,281**	**(1,416)**	**33,939,865**
Out-of-scope for IFRS 9								
Trading assets	**2,392,502**	**225,791**	**1,444,769**	**–**	**–**	**4,063,062**	**–**	**4,063,062**
Derivatives	**3,351,630**	**209,835**	**116,117**	**394**	**2,324**	**3,680,300**	**–**	**3,680,300**
Total gross carrying amount on balance sheet	**92,169,886**	**21,366,244**	**16,342,329**	**3,709,900**	**4,059,986**	**137,648,345**	**(3,403,889)**	**134,244,456**
Percentage of total credit quality	**67%**	**16%**	**12%**	**3%**	**3%**	**100%**		**100%**
Loan and other credit related commitments	**8,164,118**	**8,197,712**	**3,170,680**	**208,426**	**3,926**	**19,744,862**	**(31,818)**	**19,713,044**
Financial guarantees	**443,862**	**600,082**	**790,462**	**71,554**	**25,358**	**1,931,318**	**(39,693)**	**1,891,625**
Total nominal amount off balance sheet	**8,607,980**	**8,797,794**	**3,961,142**	**279,980**	**29,284**	**21,676,180**	**(71,511)**	**21,604,669**
At 31 Dec 2021	**100,777,866**	**30,164,038**	**20,303,471**	**3,989,880**	**4,089,270**	**159,324,525**	**(3,475,400)**	**155,849,125**

Distribution of financial instruments by credit quality at 31 December 2020 (continued)

	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	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

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2021

	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	**52,484,473**	**20,930,618**	**14,781,443**	**3,709,506**	**4,057,663**	**95,963,703**	**(3,402,473)**	**92,561,230**
– stage 1	**52,183,829**	**19,873,645**	**11,248,607**	**703,203**	**—**	**84,009,284**	**(225,218)**	**83,784,066**
– stage 2	**300,644**	**1,056,973**	**3,532,836**	**2,990,511**	**—**	**7,880,964**	**(310,490)**	**7,570,474**
– stage 3	**—**	**—**	**—**	**—**	**4,052,158**	**4,052,158**	**(2,861,260)**	**1,190,898**
– POCI	**—**	**—**	**—**	**15,792**	**5,505**	**21,297**	**(5,505)**	**15,792**
Nominal amount off balance sheet	**8,607,980**	**8,797,794**	**3,961,142**	**279,980**	**29,284**	**21,676,180**	**(71,511)**	**21,604,669**
– stage 1	**8,149,728**	**8,427,103**	**3,429,963**	**165,132**	**—**	**20,171,926**	**(27,526)**	**20,144,400**
– stage 2	**458,252**	**370,691**	**531,179**	**114,848**	**—**	**1,474,970**	**(43,658)**	**1,431,312**
– stage 3	**—**	**—**	**—**	**—**	**29,284**	**29,284**	**(327)**	**28,957**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**61,092,453**	**29,728,412**	**18,742,585**	**3,989,486**	**4,086,947**	**117,639,883**	**(3,473,984)**	**114,165,899**
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

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	AED000	AED000	AED000
Loans and advances to customers held at amortised cost	**7,632,375**	**102,984**	**58,409**	**(308,835)**	**(20,031)**	**(21,504)**	**(4.0)**	**(19.5)**	**(36.8)**
– personal	**486,491**	**71,907**	**46,436**	**(102,200)**	**(14,732)**	**(21,079)**	**(21.0)**	**(20.5)**	**(45.4)**
– corporate and commercial	**7,119,654**	**31,077**	**11,973**	**(206,635)**	**(5,299)**	**(425)**	**(2.9)**	**(17.1)**	**(3.5)**
– non-bank financial institutions	**26,230**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loans and advances to banks at amortised cost	**117**	**—**	**—**	**(21)**	**—**	**—**	**(17.9)**	**—**	**—**
Other financial assets measured at amortised cost	**248,472**	**3,034**	**719**	**(1,633)**	**(9)**	**(122)**	**(0.7)**	**(0.3)**	**—**
At 31 Dec 2021	**7,880,964**	**106,018**	**59,128**	**(310,489)**	**(20,040)**	**(21,626)**	**(3.9)**	**(18.9)**	**(36.6)**
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)

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 2021

	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Renegotiated loans
	AED000	AED000	AED000	AED000	AED000
Stage 1	**–**	**–**	**1,489**	**–**	**1,489**
Stage 2	**–**	**–**	**326,755**	**–**	**326,755**
Stage 3	**145,109**	**88,021**	**1,289,290**	**–**	**1,522,420**
Renegotiated loans At 31 Dec 2021	**145,109**	**88,021**	**1,617,534**	**–**	**1,850,664**
Allowance for expected credit losses on renegotiated loans					**1,088,936**
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

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 2021 and 31 December 2020 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 2021	**AED000**	**%**
Personal		
– residential mortgages	**7,066,267**	**13.0**
– other personal	**4,524,508**	**8.3**
	11,590,775	**21.3**
Corporate and commercial		
– commercial, industrial and international trade	**21,648,409**	**39.8**
– commercial real estate	**6,847,405**	**12.6**
– government	**6,248,304**	**11.5**
– other commercial	**7,307,048**	**13.4**
	42,051,166	**77.4**
Financial		
– non-bank financial institutions	**695,429**	**1.3**
Total gross loans and advances to customers	**54,337,370**	**100.0**
Impaired loans		
– as a percentage of gross loans and advances to customers	**7.45%**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**6.19%**	
At 31 Dec 2020		
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%	

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	
	2021	2020
	AED000	AED000
Stage 1		
Fully collateralised	**6,586,575**	6,053,647
LTV ratio:		
– less than 50%	**1,794,101**	834,435
– 51% to 60%	**1,831,697**	782,874
– 61% to 70%	**1,795,606**	1,123,168
– 71% to 80%	**928,901**	1,794,300
– 81% to 90%	**204,064**	1,184,614
– 91% to 100%	**32,206**	334,256
Partially collateralised (A):	**52,449**	168,385
LTV ratio:		
– 101% to 110%	**18,114**	92,290
– 111% to 120%	**12,643**	23,111
– greater than 120%	**21,692**	52,984
– *collateral value on A*	***47,827***	*146,213*
Total	**6,639,024**	6,222,032
Stage 2		
Fully collateralised	**220,949**	200,183
LTV ratio:		
– less than 50%	**82,192**	38,641
– 51% to 60%	**58,024**	5,744
– 61% to 70%	**55,667**	38,243
– 71% to 80%	**5,845**	80,249
– 81% to 90%	**14,160**	27,648
– 91% to 100%	**5,061**	9,658
Partially collateralised (B):	**12,415**	33,133
LTV ratio:		
– 101% to 110%	**1,261**	6,190
– 111% to 120%	**11,044**	649
– greater than 120%	**110**	26,294
– *collateral value on B*	***7,765***	*24,047*
Total	**233,364**	233,316
Stage 3		
Fully collateralised	**162,551**	160,824
LTV ratio:		
– less than 50%	**39,009**	34,684
– 51% to 60%	**11,602**	7,909
– 61% to 70%	**29,157**	22,431
– 71% to 80%	**36,906**	32,472
– 81% to 90%	**21,763**	31,107
– 91% to 100%	**24,114**	32,221
Partially collateralised (C):	**32,099**	146,292
LTV ratio:		
– 101% to 110%	**11,005**	20,179
– 111% to 120%	**3,255**	36,924
– greater than 120%	**17,839**	89,189
– *collateral value on C*	***19,280***	*116,728*
Total	**194,650**	307,116
At 31 Dec	**7,067,038**	6,762,464

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, personal loans, margin lending and overdrafts. Motor vehicle lending is generally collateralised by the motor vehicle financed and margin lending is backed by the relevant marketable security. Credit cards,personal loans and overdrafts are generally unsecured.

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	
	2021	2020[1]
	AED000	AED000
Stage 1		
Not collateralised	**1,504,422**	2,874,462
Fully collateralised	**594,966**	770,776
LTV ratio:		
– less than 50%	**10,080**	93,364
– 51% to 75%	**–**	–
– 76% to 90%	**147,341**	506,620
– 91% to 100%	**437,545**	170,792
Partially collateralised (A):	**672,673**	633,292
– collateral value on A	***368,292***	*381,728*
Total	**2,772,061**	4,278,530
Stage 2		
Not collateralised	**1,658,796**	1,603,722
Fully collateralised	**296,361**	249,485
LTV ratio:		
– less than 50%	**295,430**	249,485
– 76% to 90%	**878**	–
– 91% to 100%	**53**	–
Partially collateralised (B):	**646,758**	–
– collateral value on B	***488,674***	–
Total	**2,601,915**	1,853,207
Stage 3		
Not collateralised	**112,937**	112,833
Fully collateralised	**518,087**	21,920
LTV ratio:		
– less than 50%	**–**	21,920
– 51% to 75%	**21,941**	–
– 76% to 90%	**141,805**	–
– 91% to 100%	**354,341**	–
Partially collateralised (B):	**–**	779,060
– collateral value on B	**–**	*580,048*
Total	**631,024**	913,813
At 31 Dec	**6,005,000**	7,045,550

1 Certain prior year line items amounting to AED 413 million have been updated to reflect the correct classification.

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	
	2021	2020[1]
	AED000	AED000
Stage 1		
Not collateralised	**53,340,996**	47,656,209
Fully collateralised	**577,978**	521,527
LTV ratio:		
– less than 50%	**108,637**	26,659
– 51% to 75%	**58,588**	56,479
– 76% to 90%	**327,556**	392,615
– 91% to 100%	**83,197**	45,774
Partially collateralised (A):	**2,903,197**	2,287,097
– *collateral value on A*	***662,959***	*1,103,708*
Total	**56,822,171**	50,464,833
Stage 2		
Not collateralised	**11,605,650**	16,019,205
Fully collateralised	**513,997**	316,555
LTV ratio:		
– less than 50%	**21,681**	173,708
– 51% to 75%	**148,839**	118,855
– 76% to 90%	**59,448**	10,917
– 91% to 100%	**284,029**	13,075
Partially collateralised (B):	**1,617,255**	3,574,048
– *collateral value on B*	***852,261***	*991,066*
Total	**13,736,902**	19,909,808
Stage 3		
Not collateralised	**2,420,961**	2,469,084
Fully collateralised	**97,382**	365,682
LTV ratio:		
– less than 50%	**6,083**	33,601
– 51% to 75%	**—**	9,514
– 76% to 90%	**9,876**	9,493
– 91% to 100%	**81,423**	313,074
Partially collateralised (C):	**778,395**	1,007,652
– *collateral value on C*	***229,419***	*292,006*
Total	**3,296,738**	3,842,418
POCI		
Not collateralised	**5,505**	18,410
Fully collateralised	**15,792**	45,379
LTV ratio:		
– 91% to 100%	**15,792**	45,379
Total	**21,297**	63,789
At 31 Dec	**73,877,108**	74,280,848

1 *Certain prior year line items amounting to AED 1,970 million have been updated to reflect the correct classification.*

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.

Treasury Risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements. Treasury risk also includes the risk to our earnings or capital due to non-trading book foreign exchange exposures and changes in market interest rates. Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

The Bank's objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support the banks business strategy, and regulatory and stress testing-related requirements. The Bank's approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. The Bank aim's to maintain a strong capital and liquidity base to support the risks inherent in the business and invest in accordance with the strategy, meeting both consolidated and local regulatory requirements at all times.

The Bank's policy is underpinned by the risk management framework, Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP'). The risk framework incorporates a number of measures aligned to the assessment of risks for both internal and regulatory purposes. These risks include credit, market, operational, non-trading book foreign exchange risk, and interest rate risk in the banking book.

Capital risk, liquidity risk, interest rate risk in the banking book and non-trading book foreign exchange risk are actively managed by the Treasury function on an ongoing basis, supported by the UAE Asset and Liability Management Committee ('ALCO'), overseen by Treasury Risk Management and the UAE Risk Management Meeting ('RMM').

Assessment and risk appetite

The Bank's capital management policy is underpinned by a global capital management framework and ICAAP. The framework incorporates key capital risk appetites for CET1 and total capital. The ICAAP is an assessment of our capital position, outlining both regulatory capital resources and requirements resulting from the business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. The assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, structural foreign exchange, interest rate risk in the banking book and credit concentration risk. The ICAAP supports the determination of the consolidated capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by regulators.

The Bank aim's to ensure that management has oversight of liquidity and funding risks by maintaining comprehensive policies, metrics and controls. The bank meets internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that the banks has robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively. 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 Group's policies and controls.

Stress testing and recovery planning

The Bank uses stress testing to evaluate the robustness of plans and risk portfolios. Stress testing also informs the ICAAP and ILAAP and supports recovery planning. It is an important output used to evaluate how much capital and liquidity we require in setting risk appetite for capital and liquidity risk. It is also used to re-evaluate business plans where analysis shows capital, liquidity and/or returns do not meet their target.

Risks to capital and liquidity

Outside the stress testing framework, other risks may be identified that have the potential to affect our RWAs, capital and/or liquidity position. Downside and Upside scenarios are assessed against our management objectives, and mitigating actions are assigned as necessary. We closely monitor future regulatory changes and continue to evaluate the impact of these upon our capital and liquidity requirements.

Liquidity and Funding

Overview

At 31 December 2021, the Bank was above regulatory minimum liquidity and funding levels. The bank maintains sufficient unencumbered liquid assets to comply with local and regulatory requirements. The Bank further enhanced the liquidity framework in 2021 to include an internal liquidity metric, which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Contingency 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.

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 internal policy.

Liquid assets also include any unencumbered liquid assets held outside Markets Treasury departments for any other purpose. The internal framework 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 2021 on Page 67.

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 121,670 million at 31 December 2021, funding from customers amounted to AED 77,822 million, of which AED 77,701 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 44,095 million), included cash, central bank balances, items in the course of collection and treasury and other bills (AED 25,207 million); loans to banks (AED 19,392 million, including AED 19,241 million repayable within one year); and loans to customers (AED 50,957 million, including AED 20,895 million repayable within one year). In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

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 Markets and Security Services (‘MSS’). 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 Group, 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 Group 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 MSS 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	
	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

	2021	2020
	AED000	AED000
At 31 Dec	**20,860**	10,016
Average	**17,290**	12,788
Maximum	**28,522**	20,837
Minimum	**9,659**	8,231

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 MSS. The VaR for such trading intent activity at 31 December 2021 was AED 6 million (2020: AED 10.1 million).

VaR by risk type for the trading intent activities

	Foreign exchange (FX)	Interest rate	Credit spread	Total
	AED000	AED000	AED000	AED000
At 31 Dec 2021[1]	**2,151**	**5,514**	**1,900**	**5,851**
Average	**3,677**	**9,800**	**2,131**	**10,744**
Maximum	**7,735**	**18,512**	**6,363**	**19,334**
Minimum	**954**	**4,998**	**773**	**5,800**
At 31 Dec 2020	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

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

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 MSS 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.

VaR by risk type for the non-trading activities

	Interest rate	Credit spread	Total
	AED000	AED000	AED000
At 31 Dec 2021	**18,850**	**2,383**	**18,465**
Average	**14,606**	**3,512**	**14,710**
Maximum	**24,832**	**6,054**	**25,694**
Minimum	**7,530**	**1,722**	**8,877**
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

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 (2020: nil) arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2021.

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.

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 MSS or in the business units to mitigate the effect of interest rate risk. In reality, MSS 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.

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 2021 on page 67.

28 Contingent liabilities, contractual commitments and guarantees

	2021	2020
	AED000	AED000
Guarantees and other contingent liabilities		
Guarantees	**33,478,161**	34,341,063
Commitments		
Documentary credits and short-term trade-related transactions	**1,080,113**	765,186
Undrawn formal standby facilities, credit lines and other commitments to lend	**44,095,129**	42,453,492
At 31 Dec	**45,175,242**	43,218,678

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:

	2021	2020
	AED000	AED000
Guarantees and assets pledged by the bank as collateral security	**3,326,016**	4,050,827
Documentary credits and short-term trade-related transactions	**–**	367,277
At 31 Dec	**3,326,016**	4,418,104

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:

	2021		2020	
	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
	AED000	**AED000**	AED000	AED000
Financial guarantees[1]	**1,434,202**	**142,190**	1,596,457	182,198
Credit-related guarantees[2]	**23,353,651**	**2,308,521**	22,103,686	3,006,155
Other guarantees	**5,364,293**	**875,304**	6,590,092	862,474
At 31 Dec	**30,152,146**	**3,326,015**	30,290,235	4,050,827

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 2021 the Bank had no capital commitments to purchase, within one year, land and building and other fixed assets (2020: AED Nil).

29 Finance lease receivables

The Bank leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft).. 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.

	2021			2020		
	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	**10,897**	**(4,545)**	**6,352**	70,209	(4,839)	65,370
– later than one year and no later than five years	**129,337**	**(11,718)**	**117,619**	130,312	(16,467)	113,845
– later than five years	**15,030**	**(752)**	**14,278**	41,699	(1,492)	40,207
At 31 Dec	**155,264**	**(17,015)**	**138,249**	242,220	(22,798)	219,422

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 2021. 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 2021. 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 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. In 2020, HSBC Holding's engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, concluded. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, in early 2021, a new FRB Independent Consultant was appointed pursuant to the cease-and-desist order.

US Anti-Terrorism Act Related Litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies 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 each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. Currently, eight actions that include HSBC Bank Middle East Limited remain pending in federal courts in New York or the District of Columbia. The courts have granted HSBC's motions to dismiss in several of the cases, however appeals remain pending in one case, and another is also subject to appeal. The remaining actions are at a very early stage.

Foreign exchange rate investigations and litigation

Various regulators and competition authorities around the world are conducting investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews several of which are ongoing and settlements relevant to the group are detailed below.

In January 2018, following the conclusion of the US Department of Justice's ('DoJ') investigation into HSBC's historical foreign exchange activities, HSBC Holdings entered into a 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. In January 2021, the FX DPA expired and, in August 2021, the charges deferred by the FX DPA were dismissed.

In December 2021, the EC issued a settlement decision finding that a number of banks, including HSBC, engaged in anti-competitive practices in an online chatroom between 2011 and 2012 in the foreign exchange spot market. The EC imposed a EUR 174.3 million fine on HSBC in connection with this matter.

Other litigation

In 2019, the group was included as a defendant in a USD 30 million claim filed before the Courts of the United Arab Emirates against other defendants for the provision of banking information and documents only. The plaintiff later amended the claim to include the group as a defendant to the monetary claims already filed against the other co-defendants. Two additional parties were joined to the proceedings in January 2020, and a further party joined the proceedings as an intervener following the issuance of an expert's report.

In November 2020, the Court of First Instance dismissed the case in its entirety against all defendants including the group. The plaintiff appealed the case to the Court of Appeal where the case is currently under assessment by a panel of experts who initially issued a report adverse to the defendants including the group, but which has been returned to the same panel for reconsideration and reissuance. The group considers it to be possible that the judgment will be against it. The potential undiscounted amount of the total payments that the group could be required to make, if there was an adverse decision related to the lawsuit, is estimated to be approximately USD 30 million plus interest and costs. However, any adverse judgment, if issued, would be on a joint and several liability basis with two other defendants and therefore the group's liability could be significantly less.

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

	2021	2020
	AED000	AED000
Remuneration (wages and bonus)	**16,388**	17,572
Post-employment benefits	**800**	1,268
Share-based payments	**7,681**	5,812
Year ended 31 Dec	**24,869**	24,652

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

	2021		2020	
	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	**2,236**	**693**	9,600	2,527
Liabilities				
Accruals, deferred income and other liabilities	**46,967**	**880**	44,649	17,982

	For the year ended	
	31 Dec 2021	31 Dec 2020
	AED000	AED000
Income statement		
Other operating income	**(187)**	5,579
General and administrative expenses	**8,928**	160,603

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

	2021		2020	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	AED000	**AED000**	AED000	AED000
Assets				
Derivatives	**4,669,150**	**2,920,302**	5,345,689	5,345,689
Loans and advances to banks (including reverse repos)	**9,615,969**	**8,129,268**	10,326,391	7,238,101
Loans and advances to customers	**1,687**	**1,332**	12,859	1,322
Prepayments, accrued income and other assets	**3,324,487**	**689,693**	1,432,337	618,942
Liabilities				
Deposits by banks	**25,679,501**	**25,679,501**	13,843,862	12,655,641
Customer accounts	**897,583**	**897,583**	701,752	701,752
Financial liabilities designated at fair value	**357,612**	**–**	697,591	357,851
Derivatives	**4,880,572**	**2,871,349**	5,946,054	5,575,026
Accruals, deferred income and other liabilities	**2,335,082**	**203,566**	4,158,997	217,282
Off-balance sheet				
Guarantees	**3,915,167**	**3,326,016**	4,088,818	4,050,827
Documentary credit and short-term trade-related transactions	**560,387**	**–**	689,548	367,277

	For the year ended	
	31 Dec 2021	31 Dec 2020
	AED000	AED000
Income Statement		
Interest income	**15,461**	15,386
Interest expense	**50,128**	65,553
Fee income	**178,268**	200,828
Fee expense	**54,392**	29,068
Other operating income	**261,280**	271,179
General and administrative expenses	**652,968**	422,451

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]

	2021		2020	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	AED000	AED000	AED000	AED000
Assets				
Derivatives	**97,827**	**64,255**	110,670	68,520
Loans and advances to banks	**2,381,041**	**451,543**	2,777,349	875,930
Loans and advances to customers	**1,687**	**1,332**	12,859	1,322
Prepayments, accrued income and other assets	**235,674**	**235,674**	186,560	186,560
Liabilities				
Deposits by banks	**11,962,214**	**11,940,005**	8,023,769	7,468,533
Customer accounts	**131,536**	**129,964**	131,327	131,327
Derivatives	**214,656**	**17,156**	191,463	191,463
Accruals, deferred income and other liabilities	**10,393**	**6,104**	1,806,671	7,222
Off-balance sheet				
Guarantees	**75,837**	**75,837**	94,452	94,452
Documentary credit and short-term trade-related transactions	**179,953**	**—**	859,305	139,593

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

UAE Federal Corporate Tax

Subsequent to the year end, UAE government announced Federal Corporate Tax ('FCT') on 31 January 2022 which will be effective for accounting periods beginning on or after 1 June 2023. It is mentioned in the announcement that the UAE FCT will be applicable across all Emirates and will apply to all business and commercial activities alike, except for the extraction of natural resources which will continue to be subject to Emirate level taxation. The detailed regulation is yet to be issued and enacted.

As the Law was not published and substantially enacted as at 31 December 2021, the impact of the announcement has not been considered on the financial position of the Company as 31 December 2021. Further, due to FCT introduction, there could be some adverse implication on the deferred tax asset recognized by the bank based on Emirate Tax Laws. The Management is currently evaluating the impact on the ETR and deferred tax based on the available information and by considering various scenarios and potential tax rates that might apply to HSBC. The actual impact will be reflected in the reporting period in which tax regulations are substantially enacted, with such substantial enactment clarifying the revised tax rate and relevant rules applicable on the bank under FCT.

Approval of accounts

These accounts were approved by management on 16 March 2022 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 2021* 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.

Externally driven

Geopolitical risks

Regional geopolitical risks have been influenced by the change in the US Presidency at the beginning of 2021. The US troop withdrawal from Afghanistan and the revival of nuclear talks with Iran have set the backdrop for more constructive cooperation between the region's key regional powers. Saudi Arabia, Bahrain, Egypt and the UAE ended the blockade of Qatar in early 2021, leading in turn to an improved diplomatic dialogue and economic activity between Turkey, Saudi Arabia and the UAE. Meanwhile the Abraham Accords that were signed in late 2020 have set a positive tone for UAE's relations with Israel. The most significant geopolitical risk factor in the region remains the Iran nuclear issue, with any breakdown in progress likely to lead to a rise in diplomatic tensions and increased sanctions pressure from the US. We monitor geopolitical developments on an ongoing basis to assess their potential impact on our business.

Macroeconomic & credit risks

The economic recovery from Covid-19 gained momentum in the UAE and the outlook remains strong, although uncertainties remain regarding the potential for the emergence of new coronavirus variants, supply chain constraints, inflationary pressures, and higher interest rates. Public finances in the UAE have improved, supported by higher oil prices and fiscal reforms. Credit conditions improved in the retail portfolio and remained stable in the wholesale portfolio, highlighting a need to maintain our focus on credit quality. We closely monitor economic developments in key markets and sectors and undertake scenario analysis. We stress test portfolios of particular concern to identify sensitivity to loss under a range of scenarios, taking management action to rebalance exposures and manage risk appetite where necessary.

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. We have implemented a climate risk management framework leveraging HSBC global best practice to drive the proactive management of key risks associated with climate change.

Financial Crime risk environment

The financial crime threats we face have continued to evolve, often in tandem with broader geopolitical, socioeconomic and technological shifts across our markets. The UAE has recently been added by the Financial Action Task Force (FATF) to the list of 'Jurisdictions under Increased Monitoring' what is also often referred to as the 'Grey List'. The FATF does not call for the application of enhanced due diligence measures to be applied to these jurisdictions, but encourages its members and all jurisdictions to take into account the outcome of the FATF reviews in their risk analysis. The bank will continue to apply the HSBC Group policies and comply with the applicable laws, rules and regulations that require certain enhanced measures to be applied on customers residing or incorporated in a country on the FATF Grey List.

We continue to enhance our financial crime risk management capabilities. We are investing in next generation capabilities to fight financial crime through the application of advanced analytics and artificial intelligence. We are strengthening and investing in our fraud and surveillance controls, to introduce next generation capabilities to protect both customers and the bank. We continue to work closely with our regulators and engage in public-private partnerships, playing an active role in shaping the industry's financial crime controls for the future, notably with respect to the enhanced, and transparent, use of technology.

Regulatory compliance risk environment including Conduct

We proactively monitor for regulatory developments to ensure that we fully understand the evolving regulatory landscape and implement any applicable change in a timely way. We engage, wherever possible, with governments and regulators in the countries and territories in which we operate, to make a positive contribution to the evolving regulatory landscape and ensure that new requirements are considered properly and can be implemented effectively. We launched our simplified Conduct approach to align to the bank's purpose and values.

Cyber threat and unauthorised access to systems

We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. We strengthen our controls to reduce the likelihood and impact of advanced malware, data leakage, exposure through third parties and security vulnerabilities. We continue to enhance our cybersecurity capabilities, including Cloud security, identity and access management, metrics and data analytics, and third-party security reviews. An important part of our defence strategy is ensuring our colleagues remain aware of cybersecurity issues and know how to report incidents.

Internally driven

Operational and resilience risk

IT systems infrastructure, resilience and digitization

We are committed to investing in the reliability and resilience of our IT systems supporting critical processes. We continue to invest in transforming how software solutions are developed, delivered and maintained. We concentrate on improving system resilience and service continuity testing. We continue to ensure security is built into our software development life cycle and improved our testing processes and tools. We continue to upgrade many of our IT systems, simplify our service provision and replace older IT infrastructure and applications. 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.

Data management

We monitor proactively the quality, availability and security of data that supports our customers and our internal processes through our global data management framework, and we aim to resolve any identified data issues in a timely manner. We continue to modernise our data and analytics infrastructure through investments in cloud technology, data visualisation, machine learning and artificial intelligence.

Risks arising from the receipt of services from third parties

We have enhanced our control framework for external supplier arrangements to ensure the risks associated with third party arrangements are understood and managed effectively. We have applied the same control standards to intragroup arrangements as we have for external third party arrangements to ensure we are managing them effectively.

Change execution risk

Our success in delivering our strategic priorities and continuing to address regulatory change and other top and emerging risks is dependent on the effective and safe delivery of change across the Bank. We continue to work to strengthen our change management practices to deliver sustainable change.

Model Risk

We enhanced the monitoring and review of model performance through our Model Risk Management function. The Model Risk Management team aims to provide strong and effective review and challenge of any future redevelopment of these models. We appointed a model risk steward in the Region to support, oversee and guide the global businesses and functions on model risk management. The risk steward provides close monitoring of changes in model behaviour, working closely with business and function model owners and sponsors. We updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management.

Risks associated with workforce capability, capacity and environmental factors with potential impact on growth

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. There is a particular risk associated with the increase in workforce nationalisation requirements for banks driven by local authorities in the GCC. Non-availability of appropriate talent within the local nationals workforce and increasing competition hunt for talent remains a key risk impacting workforce capacity and capability. We have complied with the workforce nationalisation requirements in all countries in which we operate and continue to invest in recruitment and retention of local nationals. We promote a diverse and inclusive workforce and provide active support across a wide range of health and well-being activities. We continue to build our 'speak-up' culture through active campaigns. We have launched the Future Skills curriculum through HSBC University to help provide critical skills that will enable employees and the group to be successful in the future. We continue to develop succession plans for key management roles, with actions agreed and reviewed on a regular basis by the group's Board.

Liquidity and Funding Ratios

Liquidity coverage ratio ('LCR')

LCR

Unaudited	**2021**	2020
	%	%
31 December	**210**	**280**

Net stable funding ratio ('NSFR')

NSFR

Unaudited	**2021**	2020
	%	%
31 December	**146**	**164**

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% (2020: 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	2021 AED000	2020 AED000
Composition of regulatory capital		
Common Equity Tier 1 capital	**13,920,160**	12,641,159
Additional Tier 1 capital	**—**	—
Total Tier 1 capital	**13,920,160**	12,641,159
Tier 2 capital	**852,347**	876,778
Total regulatory capital	**14,772,507**	13,517,937
Risk-weighted assets		
Credit and counterparty risk	**68,187,740**	70,142,261
Market risk	**8,559,429**	8,238,868
Operational risk	**8,540,678**	9,000,433
	85,287,847	87,381,562
Common Equity Tier 1 Capital Ratio	**16.32%**	14.47%
Capital ratio	**17.32%**	15.47%

Environmental, social and governance review

We aim to achieve our purpose and deliver our strategy in a way that is sustainable, and to build strong relationships with all of our stakeholders. This section sets out our approach to our environment, stakeholders and governance.

ENVIRONMENTAL

Our Climate Strategy

Becoming a net zero bank

The Group announced the ambition to become a net zero bank in October 2020, in our own operations and supply chain by 2030 or sooner, and aiming to align our financed emissions to net zero by 2050 or sooner. In May 2021, HSBC Group shareholders approved a special resolution on climate change at the AGM that commits us to set, disclose and implement a strategy with short- and medium-term targets to align our provision of finance with the goals and timelines of the Paris Agreement.

On this basis, the Group defined targets to 2030 for the financed emissions of our oil and gas, and power and utilities portfolios, aligned with global sector decarbonisation pathways set out by the IEA in its net zero emissions by 2050 scenario. These targets have been set at a Group-level, and can be found as part of our Group disclosures.

Supporting our customers through transition

On the basis of HSBC Group's commitment to align our ambition with the Paris agreement aim of limiting temperature increases to 1.5C above pre-industrial levels, inferring that the global economy needs to be net zero by 2050. HSBC Group aims to provide between AED 2.7 trillion and AED 3.6 trillion in financing and investment by 2030 to support customers in their transition to lower carbon emissions and a sustainable future.

Sustainable Finance

The bank provides lending for specific sustainable and transition finance activities. Products include project finance (e.g. financing of renewable infrastructure projects), as well as green, social and sustainability linked loans. The Bank's cumulative financing is almost AED 13 billion at the end of 2021, increasing from AED 8.4 billion in 2020. Key highlights in 2021 included landmark sustainability-linked loans the group helped structure for Etihad Airways and few other customers.

Etihad Airways has pledged to reduce its carbon emissions to 50% of 2019 levels by 2035 on the way to reaching net zero by 2050. As part of this transition, we helped Etihad Airways raise AED 4.4 billion with the first sustainability-linked loan in the global aviation industry. We held joint ESG structuring and coordinator roles, as well as being joint book runner and mandated lead arranger.

For retail banking customers, in 2021 the group introduced a range of Sustainable Finance lending products including personal loans, providing discounted interest rates in the UAE for solar panels to be retrofitted on to residential properties. The group also offer discounted rates on our vehicle loans for Electric and Hybrid Vehicles to encourage customers to reduce their driving emissions. Further, we have partnered with Sustainable City to give residents preferential rates on their sustainable housing development, we are looking to further this initiative by partnering with other developers in the UAE. With this range of products available, we have seen increase in our Sustainable Finance lending balances from AED 16 million in January 2021 to AED 56.2 million as of the end of December 2021. Aside from lending, we have partnered with MasterCard's Priceless Planet Coalition to help restore the UAE's mangrove forests, customers can now donate their credit card reward points to plant and maintain mangroves in the UAE, a vital part of the coastal ecosystem for wildlife as well as helping to sequester carbon.

The group provides advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social and sustainable bonds and sukuk, transition bonds and sukuk, finance advisory mandates (including those covering debt and equity capital markets). The bank's cumulative facilitation is almost AED 2.3 billion at the end of 2021, increasing from AED 1.5 billion at the end of 2020.

Our approach to our own operations

2021 has been the year of operationalizing and implementing the reduce and replace elements of our strategy, to be net zero in our operations and supply chain by 2030 or sooner.

Our energy consumption

HSBC has committed to reduce energy consumption by 50% by 2030, against 2019 baseline. In 2021, the banks total greenhouse gas emissions were 11,148 tonnes, a reduction of 51% compared to 2019 (our baseline year) and a reduction of 34% versus the previous year 2020.

Business travel

The group's travel emissions have reduced by 88% in 2021 (against 2019 baseline) as a result of ongoing international travel restrictions. As international travel gradually opens up, the focus will be on education and review of travel policy to reduce overall travel and take into consideration the carbon emission impact of travel where meeting online is not appropriate.

Engaging with our supply chain

Engaging suppliers remains a crucial part of the banks strategy. In 2021, the bank is incorporating carbon emissions related questions in our vendor selection process for new supplier contracts to ensure that sustainability is a key consideration in our commercial decisions.

Our approach to climate risk

Our approach to sustainability policies

The bank's sustainability risk policies cover agricultural commodities, chemicals, defence, energy, forestry, mining and metals, UNESCO World Heritage Sites and Ramsar-designated wetlands. These policies define our appetite for business in these 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 sustainability policies continue to be aligned with our approach to climate risk, as well as our net zero commitments.

At the heart of our net zero plan is an aim to align our financed emissions – emissions produced by our portfolio of customers – to the Paris Agreement goal of net zero by 2050 or sooner. The most significant contribution we can make is to support our customers' transition to lowering carbon through transition financing, which is financial support that helps heavy-emitting companies take action to become more environmentally sustainable over time.

Managing risk for our stakeholders

We see managing climate risk as an opportunity to create value for our customers, our shareholders, our people and the communities we operate in. To achieve this, we continue to enhance our risk appetite and the supporting policies and controls to manage the financial and non-financial risks in our banking portfolios and to help identify opportunities to support our customers in managing their own climate risks. We manage climate risk across all our businesses in line with HSBC Group-wide risk management framework.

The group actively supported a Wholesale customer as sustainability coordinator in structuring and raising a sustainability linked syndicated loan. The group helped the customer in selecting a set of sustainability performance targets which are ambitious and meaningful, and fully aligned with the customer's sustainability strategy.

SOCIAL

Customers

Customer satisfaction and feedback

We listen and act on our customers and clients feedback across the bank, with Net Promoter Score ('NPS') being used as the consistent metric to assess our customer experience performance. The bank benchmarks its performance against its peers to provide a rank position and the NPS score has improved for Wholesale and Retail in 2021.

Within 2021 the bank has introduced a new complaints tracking tool allowing better capture of a complaint as well as enhanced root cause analysis, discussion and reporting. Complaint numbers for 2021 have been within tolerance with complaints mostly related to issues around payment delays and account mandate discrepancies.

Across the group in Retail we track our key channel interactions (branch, RM, contact centre, mobile and online) with the majority of countries trending positively against targets. In Commercial Banking to provide more opportunity for client feedback, we launched relational NPS ('rNPS') across UAE recording positive NPS results and providing a mechanism to close the loop with clients in a timely manner.

The UAE in our customers' pocket strategy accelerated in 2021, more than doubling the number of mobile features and experiences launched for customers than the previous year. Customers are more satisfied with the mobile banking app features, reflected in our iNPS score on mobile tripling this year. In 2021, majority of payments and transfers in the bank were completed through mobile and online banking.

Employees

The bank has been shaped by the many cultures and communities we serve, 2,717 full time equivalent employees representing nearly 85 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

As the Covid-19 pandemic continues to impact our people, businesses and communities, we are continuing to prioritise our colleagues' safety, welfare and development as they continue to adapt to new working arrangements. 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 and establishing working environments that are suitable for varying types of task. Reskilling continues to play a key role in how we build future skills with investment in technology to support employees to access development content at anytime and anywhere.

Inclusion

Our employees and the societies they represent and serve span many cultures and communities. We believe this diversity makes us stronger, and we are dedicated to building a diverse and connected workforce where everyone feels a sense of belonging.We continue efforts to build more gender-balanced teams. Female employees represent 45% of total employees and 30.8% 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 activated in 2020 continue to drive enhancements and progress toward our inclusion aspirations.

Nationalisation

The bank is committed to achieve the country's vision of increasing Emiratis in the banking sector and to ensure that developmental and growth opportunities are provided to attract, develop and retain the local talent pool.

Well-being

The well-being of our people continues to remain a key priority with focus on mental health, physical health, financial capability and work-life balance. Well-being initiatives this year included improvements to family friendly policies, the launch of the Headspace App, onsite health check-ups, and a wide variety of awareness sessions throughout the year on topics such as embracing happiness, sleep, maintaining balance in life and how to manage finances more effectively.

Learning and skills development

Developing the skills of our colleagues is critical to energising our organisation and building a dynamic, inclusive culture. Our Future Skills programme helps prepare our people for the changing skills required in the future workplace. 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 My HSBC Career portal which offers career development resources and Degreed, our learning experience platform that is a one stop shop for all learning content and enables employees to own and drive skill development and personal growth.

Employee engagement

The group's employee survey, snapshot, helps us to understand our employee engagement levels and the results are reported to executive committees and used by managers to make decisions and take action.In December 2021, the aggregated Employee Engagement score of 74% favourable (stable as compared to the same period in 2020). We encourage a 'speak up' culture. At times individuals may not feel comfortable speaking up through their immediate reporting line and therefore our global whistleblowing channel, HSBC Confidential, provides colleagues and other stakeholders with a means of raising concerns confidentially.

Communities

Supporting Communities

Community Investment projects

We have been present in the UAE for 75 years.We have a long standing commitment to our internal and external stakeholders that we deliver on through our philanthropic activities. In 2021, our charitable giving for the group was AED 13.2 million. We have made a conscious effort to shift our volunteering efforts into skills-based programmes. We acknowledge that the move has reduced the total number of volunteers and volunteering hours, but we are confident that we are creating higher value, more relevant impact as a result of the change. We focus on the areas of Future Skills (for young adults and entrepreneurs) and in unlocking next-generation climate solutions to accelerate the transition to net zero.

Future Skills and Entrepreneurship

The group's future skills and entrepreneurship agenda supported 13 projects in the UAE benefitting almost 10,000 people and contributed more than AED 9.9 million.

The six-awards winning program, Tatawwar, empowered more than 1,265 students, 181 schools and 38 teachers.This program supports building social entrepreneurial skills amongst youth across the region.

Additionally, the bank helped more than 334 social enterprises build their ESG metrics and become investor ready through the C3 Social Impact Accelerator and TiE Mentorship Programme.

Climate Solutions Partnership

In May 2021, the group formed the Climate Solutions Partnership (CSP) with the World Resources Institute and WWF, backed by AED 367 million of our philanthropic capital to accelerate support for innovative solutions tackling climate change. The partnership aims to scale up climate innovation ventures, nature-based solutions (NbS) and help to transition the energy sector towards renewables in Asia.

In the UAE, we are collaborating with Emirates Nature-WWF, the Environment Agency in Abu Dhabi and the International Centre for Biosaline Agriculture on a project that aims to provide a science-based innovative approach to strengthen synergies between coastal ecosystems, including mangroves, seagrasses, saltmarshes' conservation and restoration with climate action. It is a multi year commitment of AED 15.4 million exploring commercial and investable opportunities based on nature, climate mitigation and benefits for people's resilience (with a focus on food security and innovation, recreation & ecotourism).

The group is also actively involved in the climate innovation component of the CSP. We are selecting the best innovative ventures in the UAE and supporting them using WWF's purpose-built platform, Impactio. Ventures are reviewed on the climate impact, technical and financial aspects of their business and the top rated, most impactful ones benefit from a tailored support package that includes access to specific experts within WWF, WRI, HSBC and others as well as opportunities for exposure with our networks.

Financial Inclusion

In 2021, HSBC group launched it's Saving for Good partnership with Injaz Al-Arab, which aims to equip economically vulnerable workers in Bahrain, Kuwait, Qatar and the UAE with financial literacy skills. These individuals and their families are often highly vulnerable to social upheaval and economic shocks such as Covid-19 pandemic. In the UAE, Injaz trained 9 group employee volunteers to deliver a series of six two-hour workshops under the programme, which aims to reach a total of 120 migrant workers, and to encourage at least 35% of them to open a savings account.

GOVERNANCE

How ESG is governed

We act on our responsibility to run our business in a way that upholds high standards of corporate governance. We 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. In our endeavor to restore trust in our industry, we aim to act with courageous integrity and learn from past events to help prevent their recurrence. We meet our responsibilities to society, including through being transparent in our approach to paying taxes. We also seek to ensure we respect global standards on human rights in our workplace and our supply chains through screening and remediation, and continually work to improve our compliance management capabilities. We acknowledge that increasing financial inclusion is a continuing effort, and we are carrying out a number of initiatives to increase access to financial services.

Our respect for human rights

The bank has trained more than 100 front-line staff in human rights issues and incorporated a questionnaire into our annual credit reviews for customers in seven sectors considered higher risk as there is limited data available to assess the level of human rights risk related to our customers.

The bank has also worked with its suppliers to identify potential risks associated with them not complying with the group's Ethical and Environmental Code of Conduct. The bank has developed a tailored assessment tool which is currently being deployed to audit high risk suppliers and setting corrective action plans that is expected to lead to the closure of virtually all the high and medium risks identified.

Conduct: Our Product responsibilities

We are committed to providing customers with products that meet their financial needs facilitating cross-border trade and payment services, and providing access to products and services offered by other global businesses. Good conduct at HSBC means that we deliver fair outcomes for customers and maintain the orderly and transparent operation of the financial markets.

We have policies and procedures to help deliver fair outcomes for our customers, and to maintain orderly and transparent financial markets. Conduct principles are embedded into the way we develop, distribute, structure and execute products and services.

Safeguarding data

The threat of cyber-attacks remains a concern for our organization, as it does across the entire financial sector. Failure to protect our operations from internet crime or cyber-attacks may result in financial loss, disruption for customers or a loss of data. This could undermine our reputation and ability to attract and retain customers. We have invested in business and technical controls to help prevent, detect and react to these threats. We have strengthened our controls to reduce the likelihood and impact of advanced malware, data leakage, infiltration of payment systems and denial of service attacks.

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. Our Group-wide privacy policy and principles aim to provide a consistent global approach to managing data privacy risk, and must be applied by all of our global businesses and global functions. In 2021, the group embedded an enhanced data privacy risk management framework across all countries in which it operates.

Our approach with our suppliers

HSBC group has an ethical and environmental code of conduct for suppliers of goods and services, which all contracted suppliers are required to comply with. Our supplier management principles and code of conduct are available at www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers.

Financial crime risk management

We have continued our efforts to combat financial crime risks and reduce their impact on our organization and the markets we operate and serve. These financial crime risks include money laundering, terrorist and proliferation financing, tax evasion, bribery and corruption, sanctions and fraud. As part of this work, we have made progress on several key initiatives, enabling us to manage and mitigate these risks more effectively, and further our pioneering work in financial crime risk management across the financial services industry. We have embedded a strong financial crime risk management framework across all global businesses and all countries and territories in which we operate.

We operate a zero tolerance approach to bribery and corruption, and consider such activity to be unethical and contrary to good governance. Our global anti-bribery and corruption policy sets out the key principles and minimum control requirements that enable us to mitigate bribery and corruption risk and comply with all laws and regulations in the countries where we operate.

Annual Report of the Internal Shari'ah Supervision Committee of HSBC Bank Middle East Limited, UAE Operations ('the Institution')

Issued on: 07 January 2022

To: Shareholders of HSBC Bank Middle East Limited

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards ("the Regulatory Requirements"), the Internal Shari'ah Supervision Committee of the Institution ('ISSC') presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the Institution for the financial year ended on 31 December 2021 ('Financial Year').

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter (including the ISSC Terms of Reference for 2021), the ISSC's responsibility is stipulated as to:

a. undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Institution's Activities") and issue Shari'ah resolutions in this regard, and

b. determine Shari'ah parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ('HSA') to ascertain compliance of the Institution with Islamic Shari'ah.

The senior management is responsible for compliance of the Institution with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ("Compliance with Islamic Shari'ah") in all Institution's Activities, and the Board bears the ultimate responsibility in this regard.

2. Shari'ah Standards

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ('AAOIFI') as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities without exception.

3. Duties Fulfilled by the ISSC During the Financial Year

The ISSC conducted Shari'ah supervision of the Institution's Activities by reviewing those Activities and monitoring them through the internal Shari'ah control section, Shari'ah audit in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC's activities included the following:

a. Convening 4 meetings during the year.

b. Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters and other documentation submitted by the Institution to the ISSC for approval.

d. Ascertaining the level of compliance of allocation of expenditures and costs, distribution of profits between investment accounts holders and shareholders (not applicable) with parameters set by the ISSC.

e. Supervision through the internal Shari'ah control section, Shari'ah audit of the Institution's Activities including supervision of executed transactions and adopted procedures on the basis of samples selected from executed transactions and reviewing reports submitted in this regard.

f. Providing guidance to relevant parties in the Institution – to rectify (where possible) incidents cited in the reports prepared by internal Shari'ah control section, Shari'ah audit and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes.

g. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.

h. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'ah.

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution. The ISSC received the required assistance to access all documents and data and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Institution's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports or separately raised by the Internal Shariah Control Section. The ISSC also provided directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Signatures of members of the Internal Shari'ah Supervision Committee of the Institution

Dr. Aznan Hasan	Chairman of ISSC
Dr. Mohamed Ali Elgari	Deputy Chairman of ISSC
Dr. Salim Al-Ali	Member of the ISSC
Dr. Mousa Adam Eisa	Member of the ISSC

HSBC Bank Middle East Limited

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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