

HSBC Bank Middle East Limited - UAE Operations
Pillar III Disclosures
for the year ended 31 December 2021

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KM1 - Overview of risk management, key prudential metrics and RWA

		Amount (AED'000)
		31-Dec-21
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1)	13,920,160
1a	Fully loaded ECL accounting model	3,616,728
2	Tier 1	13,920,160
2a	Fully loaded ECL accounting model Tier 1	3,616,728
3	Total capital	14,772,507
3a	Fully loaded ECL accounting model total capital	3,616,728
	Risk-weighted assets (amounts)	
4	Total risk-weighted assets (RWA)	85,287,846
	Risk-based capital ratios as a percentage of RWA	
5	Common Equity Tier 1 ratio (%)	16.32%
5a	Fully loaded ECL accounting model CET1 (%)	26%
6	Tier 1 ratio (%)	16.32%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	26%
7	Total capital ratio (%)	17.32%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.32%
	Additional CET1 buffer requirements as a percentage of RWA	
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%
9	Countercyclical buffer requirement (%)	0
10	Bank D-SIB additional requirements (%)	0
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	4.13%
	Leverage Ratio	
13	Total leverage ratio measure	169,335,954
14	Leverage ratio (%) (row 2/row 13)	8.22%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	2.14%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.22%
	Liquidity Coverage Ratio	
15	Total HQLA	-
16	Total net cash outflow	-
17	LCR ratio (%)	-
	Net Stable Funding Ratio	
18	Total available stable funding	-
19	Total required stable funding	-
20	NSFR ratio (%)	-
	ELAR	
21	Total HQLA	29,145,175
22	Total liabilities	121,451,021
23	Eligible Liquid Assets Ratio (ELAR) (%)	28.63%
	ASRR	
24	Total available stable funding	90,804,223
25	Total Advances	60,219,535
26	Advances to Stable Resources Ratio (%)	66.32%

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OVA - Overview of risk management

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+A22

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 for 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	There are processes in place to identify/assess, monitor, manage and report risks to help ensure we remain with our risk appetite
	Enterprise-wide risk management tools Active risk management: identification/assessment, monitoring, management and reporting	
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 the 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 Lines of defense ("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 defense model. The first LOD 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.

Stress testing and recovery planning:

Our stress testing programme 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 crystallize, 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 remains committed to further developing its Recovery and Resolution capabilities in line with Resolvability Assessment Framework regulatory requirements.

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OV1 - Overview of risk management, key prudential metrics and RWA

		Amount (AED'000)	
		RWA	Minimum capital requirements
		31-Dec-21	31-Dec-21
1	Credit risk (excluding counterparty credit risk)	58,509,389	6,143,486
2	Of which: standardised approach (SA)	58,509,389	6,143,486
3	Of which: foundation internal ratings-based (F-IRB) approach		
4	Of which: supervisory slotting approach		
5	Of which: advanced internal ratings-based (A-IRB) approach		
6	Counterparty credit risk (CCR)	9,678,257	1,016,217
7	Of which: standardised approach for counterparty credit risk	9,678,257	1,016,217
8	Of which: Internal Model Method (IMM)		
9	Of which: other CCR		
10	Credit valuation adjustment (CVA)		
11	Equity positions under the simple risk weight approach		
12	Equity investments in funds - look-through approach	-	-
13	Equity investments in funds - mandate-based approach	-	-
14	Equity investments in funds - fall-back approach	-	-
15	Settlement risk	95	10
16	Securitisation exposures in the banking book	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)		
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-
20	Market risk	8,559,429	898,740
21	Of which: standardised approach (SA)	8,559,429	898,740
22	Of which: internal models approach (IMA)		
23	Operational risk	8,540,678	896,771
24	Amounts below thresholds for deduction (subject to 250% risk weight)		
25	Floor adjustment		
26	Total (1+6+10+11+12+13+14+15+16+20+23)	85,287,847	8,955,224

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LI1 - Linkages between financial statements and regulatory exposures

							Amount (AED'000)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances at central bank	2,479,265	11,479,265	11,479,265	-	-	-	-
Items in the course of collection from other banks	128,217	-	-	-	-	-	-
Trading portfolio assets	4,063,062	-	-	-	-	-	-
Financial assets designated at fair value			-	-	-	-	-
Derivative financial instruments	3,680,300	3,680,300	-	3,680,300	-	-	-
Loans and advances to banks	19,392,939	26,381,717	10,394,753	15,986,964	-	2,416,435	-
Loans and advances to customers	50,957,162	59,020,296	54,431,285	4,589,011	-	159,146	-
Reverse repurchase agreements and other similar secured lending	18,000,696	-	-	-	-	-	-
Available for sale financial investments (Includes FVOCI)	33,941,281	35,373,851	33,941,280	-	-	1,432,581	-
Prepayments, accrued income and other assets	3,052,141	4,658,697	4,336,403	249,033	-	-	73,261
Intangible assets	467,584	467,584	-		-	-	467,584
Deferred tax assets	719,689	-	-		-	-	-
	-	-	-	-	-	-	-
Total Assets	136,882,336	141,061,710	114,582,985	24,505,309	-	4,008,162	540,845

Liabilities							
Deposits from banks	18,344,639	30,442,904	-	-	-	-	30,442,904
Items in the course of collection due to other banks	1,949,495	1,949,495	-	-	-	-	1,949,495
Customer accounts	77,822,607	78,683,164	-	-	-	-	78,683,164
Repurchase agreements and other similar secured borrowings	8,692,427	-	-	-	-	-	-
Trading portfolio liabilities	2,270,309	-	-	-	-	-	-
Financial liabilities designated at fair value	4,275,274	2,477,803	-	-	-	661,940.70	1,815,862
Derivative financial instruments	3,450,860	3,450,860	-	3,450,860	-	-	-
Debt securities in issue	309,539	309,539	-	-	-	-	309,539
Accruals, deferred income and other liabilities	4,133,778	3,355,481	-	-	-	-	3,355,481
Current tax liabilities	161,142	161,142	-	-	-	-	161,142
Provisions	259,779	5,061,210	3,905,824	-	-	-	1,155,386
Total Liabilities	121,669,849	125,891,598	3,905,824	3,450,860	-	661,941	117,872,973

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LI2 - Linkages between financial statements and regulatory exposures

		Amount (AED'000)				
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	140,520,865	114,582,985		24,505,309	4,008,162
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	8,018,625	3,905,824		3,450,860	661,941
3	Total net amount under regulatory scope of consolidation	132,502,240	110,677,161		21,054,449	3,346,222
4	Off-balance sheet amounts	29,574,804	22,221,797		7,353,007	
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters	3,815,227			3,815,233	
9	Exposure amounts considered for regulatory purposes	165,892,272	132,898,959	-	32,222,689	3,346,222

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LIA - Linkages between financial statements and regulatory exposures

The Pillar3 disclosures at 31st December 2021 are prepared in accordance with regulatory capital adequacy concepts and rules, while the Annual Reports and Accounts 2021 are prepared in accordance with IFRS.

Based on the above criteria following items have been reclassified

- Cash and balances at central bank - Overnight placements have been classified as "Cash and balances at central bank" whereas those are reported in "Loans and advances to banks" in Financial Statements.
- Trading portfolio assets – Under regulatory requirement these have been reclassified as Loans and advances to banks" and "Loans and advances to customers".
- Under regulatory requirement, Reverse repurchase agreements and other similar secured lending" are reported as Loans and advances to banks.
- Under regulatory requirement, Loans and advances to customers are reported gross and provision reported in Liabilities, whereas in Financial Statements it is reported as net of provision.
- Under regulatory requirement, Deferred tax assets and items in course of collection from other banks are reported in "Prepayments, accrued income and other assets"

Off-balance sheet amounts and potential future exposure for counterparty risk

Off-balance sheet amounts subject to credit risk regulatory frameworks include undrawn portions of committed facilities, various trade finance commitments and guarantees. We apply a credit conversion factor ('CCF') to these items and add potential future exposures ('PFE') for counterparty credit risk.

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.

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 uncollateralized component of the OTC derivative portfolio. This includes the uncollateralized component of collateralized derivatives in addition to derivatives that are fully uncollateralized. 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.

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PV1 - Prudent valuation adjustments

		Amount (AED'000)							
		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
1	Closeout uncertainty, of which:	-	34,033	950	20,857	-	55,840	25,429	30,411
2	<i>Mid-market value</i>	-	31,110	711	20,128	-	51,949	23,091	28,857
3	<i>Closeout cost</i>	-	2,013	239	729	-	2,981	2,338	643
4	<i>Concentration</i>	-	911	-	-	-	911	-	911
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risk	-	4,400	96	1,921	-	6,418	3,468	2,950
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	10,217	16	-	-	10,233	10233	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other	-	-	-	-	-	-	-	-
12	Total adjustment	-	48,651	1,062	22,778	-	72,491	39,130	33,361

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CC1 - Composition of regulatory capital

		Amount (AED'000)	
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,495,255	Same as (h) from CC2 template
2	Retained earnings	7,807,349	-
3	Accumulated other comprehensive income (and other reserves)	2,088,047	-
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-	-
6	Common Equity Tier 1 capital before regulatory deductions	14,390,650	-
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	136,091	
8	Goodwill (net of related tax liability)	-	CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	467,584	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	19,739	-
11	Cash flow hedge reserve	12,784	-
12	Securitisation gain on sale	-	-
13	Gains and losses due to changes in own credit risk on fair valued liabilities	(29,616)	-
14	Defined benefit pension fund net assets	-	-
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	-
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	-
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
20	Amount exceeding 15% threshold	-	-
21	Of which: significant investments in the common stock of financials	-	-
22	Of which: deferred tax assets arising from temporary differences	-	-
23	CBUAE specific regulatory adjustments	-	-
24	Total regulatory adjustments to Common Equity Tier 1	606,581	-
25	Common Equity Tier 1 capital (CET1)	13,784,069	-
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	CC2 (i)
27	Of which: classified as equity under applicable accounting standards	-	-
28	Of which: classified as liabilities under applicable accounting standards	-	-
29	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	-	-
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	-
31	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	-
32	Additional Tier 1 capital before regulatory adjustments	-	-

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CC1 - Composition of regulatory capital

			Amount (AED'000)
	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments	-	-
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
36	CBUAE specific regulatory adjustments	-	-
37	Total regulatory adjustments to additional Tier 1 capital	-	-
38	Additional Tier 1 capital (AT1)	-	-
39	Tier 1 capital (T1= CET1 + AT1)	13,784,069	-
	Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
41	Directly issued capital instruments subject to phase-out from Tier 2	-	-
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
43	Of which: instruments issued by subsidiaries subject to phase-out	-	-
44	Provisions	-	-
45	Tier 2 capital before regulatory adjustments	-	-
	Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments	-	-
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
49	CBUAE specific regulatory adjustments	-	-
50	Total regulatory adjustments to Tier 2 capital	852,347	-
51	Tier 2 capital (T2)	852,347	-
52	Total regulatory capital (TC = T1 + T2)	14,636,416	-
53	Total risk-weighted assets	85,287,846	-
	Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	16.16%	-
55	Tier 1 (as a percentage of risk-weighted assets)	16.16%	-
56	Total capital (as a percentage of risk-weighted assets)	17.16%	-
57	Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	2.50%	-
58	Of which: capital conservation buffer requirement	2.50%	-
59	Of which: bank-specific countercyclical buffer requirement	-	-
60	Of which: higher loss absorbency requirement (e.g. DSIB)	0.00%	-
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	5.82%	-

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CC1 - Composition of regulatory capital

			Amount (AED'000)
The CBUAE Minimum Capital Requirement			
62	Common Equity Tier 1 minimum ratio	7.00%	-
63	Tier 1 minimum ratio	8.50%	-
64	Total capital minimum ratio	10.50%	-
Amounts below the thresholds for deduction (before risk weighting)			
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	-
66	Significant investments in common stock of financial entities	-	-
67	Mortgage servicing rights (net of related tax liability)	-	-
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	-
70	Cap on inclusion of provisions in Tier 2 under standardised approach	-	-
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
73	Current cap on CET1 instruments subject to phase-out arrangements	-	-
74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
75	Current cap on AT1 instruments subject to phase-out arrangements	-	-
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-	-
77	Current cap on T2 instruments subject to phase-out arrangements	-	-
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)	-	-

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CC2 - Composition of capital

	Amount (AED'000)		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances at central banks	2,479,265	11,479,265	-
Items in the course of collection from other banks	128,217	-	-
Trading portfolio assets	4,063,062	-	-
Financial assets designated at fair value	-	-	-
Derivative financial instruments	3,680,300	3,680,300	-
Loans and advances to banks	19,392,939	26,381,717	-
Loans and advances to customers	50,957,162	59,020,296	-
Reverse repurchase agreements and other similar secured lending	18,000,696	-	-
Available for sale financial investments (Includes FVOCI)	33,941,281	35,373,851	-
Current and deferred tax assets	719,689	-	-
Prepayments, accrued income and other assets	2,142,612	4,658,697	-
Investments in associates and joint ventures	-	-	-
Goodwill and other intangible assets	467,584	467,584	-
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	467,584	467,584	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	909,529	-	-
Total assets	136,882,336	141,061,710	-

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CC2 - Composition of capital

Amount (AED'000)			
Liabilities			
Deposits from banks	18,344,639	30,442,904	-
Items in the course of collection due to other banks	1,949,495	1,949,495	-
Customer accounts	77,822,607	78,683,164	-
Repurchase agreements and other similar secured borrowing	8,692,427	-	-
Trading portfolio liabilities	2,270,309	-	-
Financial liabilities designated at fair value	4,275,274	2,477,803	-
Derivative financial instruments	3,450,860	3,450,860	-
Debt securities in issue	309,539	309,539	-
Accruals, deferred income and other liabilities	3,554,094	3,355,481	-
Current and deferred tax liabilities	161,142	161,142	-
Of which: DTLs related to goodwill	-	-	(d)
Of which: DTLs related to intangible assets (excluding MSRs)	-	-	(e)
Of which: DTLs related to MSRs	-	-	(f)
Subordinated liabilities	-	-	-
Provisions	259,779	4,440,577	-
Retirement benefit liabilities	579,684	620,633	-
Total liabilities	121,669,849	125,891,598	-
Shareholders' equity			
Paid-in share capital	4,495,255	4,495,255	-
Of which: amount eligible for CET1	4,495,255	4,495,255	(h)
Of which: amount eligible for AT1	-	-	(i)
Retained earnings	10,717,232	10,867,651	-
Accumulated other comprehensive income	-	(192,785)	-
Total shareholders' equity	15,212,487	15,170,121	-

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LR1 - Summary comparison of accounting assets vs leverage ratio exposure

		Amount (AED'000)
		31-Dec-21
1	Total consolidated assets as per published financial statements	136,882,336
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	4,359,176
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	2,731,723
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	26,709,518
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(467,584)
12	Other adjustments	(879,215)
13	Leverage ratio exposure measure	169,335,954

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LR2 - Leverage ratio common disclosure template

		Amount (AED'000)
		31-Dec-21
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	117,381,124
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-
6	(Asset amounts deducted in determining Tier 1 capital)	(467,584)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	116,913,540
Derivative exposures		
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,275,305
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	6,764,174
10	(Exempted CCP leg of client-cleared trade exposures)	-
11	Adjusted effective notional amount of written credit derivatives	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
13	Total derivative exposures (sum of rows 8 to 12)	8,039,479
Securities financing transactions		
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	14,941,693
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
16	CCR exposure for SFT assets	2,731,723
17	Agent transaction exposures	-
18	Total securities financing transaction exposures (sum of rows 14 to 17)	17,673,416
Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	78,789,998
20	(Adjustments for conversion to credit equivalent amounts)	(52,080,480)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-
22	Off-balance sheet items (sum of rows 19 to 21)	26,709,518
Capital and total exposures		
23	Tier 1 capital	13,920,160
24	Total exposures (sum of rows 7, 13, 18 and 22)	169,335,953
Leverage ratio		
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	8.22%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	8.22%
26	CBUAE minimum leverage ratio requirement	3%
27	Applicable leverage buffers	-

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LIQA - Liquidity risk management

Overview

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.

The 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.

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.

Stress Testing

The Group 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.

Contingency planning

The Bank maintains a contingency plan which can be enacted in the event of internal or external trigger events 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.

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ELAR - Eligible Liquid Assets Ratio

Amount (AED'000)

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	11,479,265	
1.2	UAE Federal Government Bonds and Sukuks	17,665,910	
	Sub Total (1.1 to 1.2)	29,145,175	29,145,175
1.3	UAE local governments publicly traded debt securities	422,323	
1.4	UAE Public sector publicly traded debt securities	461	
	Sub total (1.3 to 1.4)	422,784	422,784
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	5,207,647	5,207,647
1.6	Total	34,775,606	34,775,606
2	Total liabilities		121,451,021
3	Eligible Liquid Assets Ratio (ELAR)		28.6%

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ASRR - Advances to Stables Resource Ratio

Amount (AED'000)

1		Computation of Advances	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	54,423,132
	1.2	Lending to non-banking financial institutions	1,704,337
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-289,639
	1.4	Interbank Placements	4,381,705
	1.5	Total Advances	60,219,535
2		Calculation of Net Stable Ressources	
	2.1	Total capital + general provisions	15,932,734
		Deduct:	
	2.1.1	Goodwill and other intangible assets	467,584
	2.1.2	Fixed Assets	909,529
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	-
	2.1.6	Investment in subsidiaries, associates and affiliates	-
	2.1.7	Total deduction	1,377,113
	2.2	Net Free Capital Funds	14,555,621
	2.3	Other stable resources:	
	2.3.1	Funds from the head office	-
	2.3.2	Interbank deposits with remaining life of more than 6 months	6,444,848
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	3,712,730
	2.3.5	Customer Deposits	63,379,706
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	2,711,318
	2.3.7	Total other stable resources	76,248,602
	2.4	Total Stable Resources (2.2+2.3.7)	90,804,223
3		Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	66.32%

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CRA - General qualitative information about credit risk

Retail Risk: Credit Risk is managed by setting up a Risk Appetite for the Lending business, to draw a broader guard rail, and to ensure a right commercial trade-off between Risk and Reward. Within the agreed Risk Appetite, various credit strategies are developed on Acquisition, Portfolio Intervention, Collections capabilities, etc. Credit Risk at a product level is managed through formulation of lending policy, ongoing monitoring of portfolio performance, tighter collection strategies. The process is overseen via governance, including RMM, CCRF, etc. Enhanced policy intervention and oversight is provided in the times of economic uncertainty. Furthermore, Credit risk is a key consideration in pricing of the products.

Credit policies and product lending limits are set in alignment with the regulatory requirements, and to ensure new business is meeting the required profitability hurdle & overall credit risk profile remains within the approved Risk Appetite. Limits of Authority are issued to govern the overall portfolio credit exposure and individual lending transactions. External credit bureau information, and internal historic loss experiences are factored in, for setting the policy parameters. Collateral valuation & tighter securitization process guidance is embedded in to the Credit risk policy. Ongoing portfolio performance is reviewed through tracking & reporting on key risk indicators. Internal caps & triggers are put in place to meet the credit risk objective, at granular level.

Wholesale Risk: The credit risk functions within Wholesale Credit Risk Management (WCRM) and Traded Risk are the constituent parts of HBME Risk that support the CRO in overseeing credit risks at the highest level. For this purpose, their major duties comprise: undertaking independent reviews of large and high-risk credit proposals (including concentration risk) and reporting oversight of wholesale and retail credit risk management disciplines, ownership of credit policy and credit systems programmes, portfolio management oversight and reporting on risk matters to senior executive management and to regulators.

The credit risk functions fulfil an essential role as independent risk control units distinct from business line management in providing an objective scrutiny of risk rating assessments, credit proposals for approval and other risk matters.

Moreover, risk proposals in certain portfolios – sovereign obligors, banks, some non-bank financial institutions and intra-Group exposures – are approved centrally in Global Risk to facilitate efficient control and the reporting of regulatory large and cross-border exposures.

The principal objectives of the bank's credit risk management function are:

- To maintain a strong culture of responsible lending, and a robust credit risk policy and control framework;
- To both partner and challenge businesses in defining, implementing and continually re-evaluating credit risk appetite under actual and stress scenario conditions; and

- To ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Credit risk exposures are generally measured and managed in portfolios of either customer types or product categories. Risk rating systems are designed to assess the default propensity of, and loss severity associated with, distinct customers who are typically managed as individual relationships or, in the case of retail business, exposures on a product portfolio basis.

Credit policies and limits are established in accordance with relevant regulations including but not limited to:

Delegation of Authority: The delegation of authority is cascaded down to the level of credit approvers. The quantum of approval authority that is delegated to credit approvers, in Middle East Risk (MER) and the offshore center (Centre of Excellence based in India) is relative to their seniority and experience and aligned with the credit approval process. It further varies on borrower CRR and whether the proposals are new money, renewals or settlement limits. For limits over a certain threshold, HBME CEO / CRO approval and Group Risk concurrence are required.

Counterparty Credit Limits (including Corporates, Financial Institutions and Governments): Credit risk limits to counterparties are approved within HBME, with Group Risk concurrence required above certain thresholds.

Cross-Border Risk: This is controlled through the imposition of country limits, which are determined by taking into account economic and political factors, and local business knowledge, with sub-limits by maturity and type of business. Transactions with counterparties in higher risk countries are considered on a case-by-case basis.

Risk Concentration: Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual borrower / group of related borrowers, industry sectors and products.

Problem loans: Special attention is paid to the management of problem loans. Separate Special Credit Unit (SCU) have been established within Regional and certain Country Risk teams to provide intensive management and control to rehabilitate weaker risks, assess impairment and maximize recoveries of doubtful debts.

HSBC has embedded three line of defense business model to achieve its strategic objectives, while managing the risk tightly within appetite. UAE Wholesale Credit Risk (Second line) team functionally reports in to Group Chief Risk Officer through Regional CRO, and maintains its independence from revenue generating unit (First line). Beside the internal quality monitoring processes within Risk function, Internal Audit (Third line) reviews and provides their opinion on the overall control environment periodically.

Relationships between the credit risk management, risk control, compliance and internal audit functions

Organization is set up across three pillar - Global business, Global functions and Operational unit called DBS (Digital Banking Services). These units functionally report in to Group Chief Executive Officer, and works collaboratively at each country level. Risk & Compliance is one of the Global

function, that works closely with business. Internal Audit is also one of the Global function that collaborates across businesses and functions

Credit risk reporting to the senior management

Key risk indicators, Caps & Triggers and various granular MIS at Portfolio level are regularly reported to Senior management and Governance forums. Periodic Credit risk update is provided to Board Risk Committee and Group Management. Beside the risk reporting, forward looking strategy & policy changes are updated to executive management.

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CR1 - Credit quality of assets

		Amount (AED'000)					
		a	b	c	d	e	f
		Gross carrying values of		Allowances/Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	4,780,548	54,990,045	3,365,268	2,847,777	517,491	56,405,325
2	Debt securities	-	35,373,851	1,416	-	1,416	35,372,435
3	Off-balance sheet	562,201	33,996,076	239,879	327	239,552	34,318,397
4	Total	5,342,749	124,359,972	3,606,563	2,848,104	758,459	126,096,157

CR2 - Changes in stock of defaulted loans and debt securities

		Amount (AED'000)
		31-Dec-21
1	Defaulted loans and debt securities at the end of the previous reporting period	5,617,116
2	Loans and debt securities that have defaulted since the last reporting period	469,212
3	Returned to non-default status	297,691
4	Amounts written off	492,257
5	Other changes	515,832
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	4,780,548

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CRB - Additional disclosure related to the credit quality of assets

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.

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.

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Breakdown of exposures by geographical areas, industry and residual maturity.

Amount (AED'000)												
Industry	Country	Overdraft	Overdue	0 - 7 Days	8 - 14 Days	15 Days - 1 Month	1 Month - 3 Months	3 Months - 6 Months	6 Months to 1 Year	1 Year to 3 Years	More than 3 Years	Total
Agriculture and Allied Activities	United Arab Emirates	5,906	2,866	-	-	-	-	-	-	-	-	8,772
	Other GCC	-	-	-	-	-	-	-	-	-	-	-
	Europe	-	-	-	-	-	-	-	-	-	-	-
	Asia	-	-	-	-	-	-	-	-	-	-	-
	Others	-	-	-	-	-	-	-	-	-	-	-
Construction	United Arab Emirates	614,777	355,221	133,208	16,281	52,543	329,879	248,001	26,574	91,741	30,032	1,898,257
	Other GCC	-	-	-	-	-	-	-	-	-	-	-
	Europe	-	-	-	-	-	-	-	-	-	-	-
	Asia	-	-	-	-	-	-	-	-	-	-	-
	Others	-	-	-	-	-	-	-	-	-	-	-
Electricity, Gas and Water	United Arab Emirates	6,054	3,822	1,909	1,005	36,158	12,233	38,295	-	1,019,093	712,607	1,831,176
	Other GCC	-	-	-	-	-	-	-	-	-	102,749	102,749
	Europe	-	-	-	-	-	-	-	-	-	-	-
	Asia	-	-	-	-	-	-	-	-	6,246	-	6,246
	Others	-	-	-	-	-	-	-	-	-	-	-
Government	United Arab Emirates	2,438,003	-	274,639	-	-	100,000	100,000	-	-	3,053,317	5,965,959
	Other GCC	-	-	-	-	-	550,875	-	-	-	-	550,875
	Europe	-	-	-	-	-	-	-	-	-	-	-
	Asia	-	-	-	-	-	-	-	-	-	-	-
	Others	-	-	-	-	-	-	-	-	-	-	-
Loans to Individuals/HNIs/Others	United Arab Emirates	623,225	286,213	44,528	6,259	581	1,786,649	45,413	171,614	1,078,691	7,844,387	11,887,560
	Other GCC	21,388	-	-	-	-	3,470	72	158	1,275	60,200	86,563
	Europe	9,183	-	27	-	-	1,315	-	58	1,074	50,201	61,858
	Asia	10,349	10,279	-	-	-	1,711	-	97	1,877	61,451	85,764
	Others	2,777	2,112	813	-	-	11,415	597	2,112	6,510	164,697	191,033
Manufacturing	United Arab Emirates	368,675	664,558	37,065	56,429	190,489	1,065,052	817,531	196,363	216,184	1,496,478	5,108,824
	Other GCC	-	-	12,139	15,752	23,337	159,953	108,142	14,468	135,074	1,205,739	1,674,604
	Europe	-	-	-	-	-	-	-	-	177,357	21,117	198,474
	Asia	-	-	271,897	-	-	-	-	-	-	-	271,897
	Others	-	-	-	-	-	41,132	-	-	81,265	274,878	397,275
Mining & Quarrying	United Arab Emirates	-	-	-	-	-	127,280	-	-	228,739	-	356,019
	Other GCC	-	-	-	-	-	-	-	-	-	-	-
	Europe	-	-	-	-	-	-	-	-	642,688	-	642,688
	Asia	-	-	-	-	-	-	-	-	-	-	-
	Others	-	-	-	-	-	-	-	73,450	-	32,134	105,584

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Breakdown of exposures by geographical areas, industry and residual maturity

Amount (AED'000)												
Industry	Country	Overdraft	Overdue	0 - 7 Days	8 - 14 Days	15 Days - 1 Month	1 Month - 3 Months	3 Months - 6 Months	6 Months to 1 Year	1 Year to 3 Years	More than 3 Years	Total
Non Banking Financial Institutions	United Arab Emirates	94,702	19	-	8	-	-	-	-	245,000	-	339,729
	Other GCC	-	-	275,438	-	-	-	-	-	78,959	-	354,397
	Europe	1	-	-	-	-	-	-	-	-	-	1
	Asia	-	-	-	-	-	-	-	-	-	-	-
	Others	11	-	-	-	-	-	-	-	-	-	11
Other Services	United Arab Emirates	171,627	151,590	25,959	218,234	298,193	566,546	207,948	874,142	2,958,203	1,954,783	7,427,225
	Other GCC	-	-	-	914,493	-	79,100	-	-	-	2,864,687	3,858,280
	Europe	-	-	8,861	-	21,176	366,918	-	-	-	-	396,955
	Asia	-	-	-	-	-	-	-	73,619	-	-	73,619
	Others	7,673	-	-	-	-	-	-	-	323,180	293,450	624,303
Real Estate	United Arab Emirates	542,801	489,733	79	-	196	505	8,400	23,344	436,322	3,036,490	4,537,870
	Other GCC	-	-	-	-	-	-	-	-	-	84,983	84,983
	Europe	-	-	-	-	-	-	-	-	-	-	-
	Asia	-	-	-	-	-	-	-	-	-	-	-
	Others	138	18,363	-	-	-	-	-	-	-	-	18,501
Trade	United Arab Emirates	363,773	710,829	637,487	181,450	416,682	741,880	650,557	154,936	546,574	107,636	4,511,804
	Other GCC	204	-	-	-	80,336	-	-	-	388,273	-	468,813
	Europe	-	-	332	-	-	-	-	-	-	-	332
	Asia	-	-	-	-	-	-	-	-	-	-	-
	Others	-	-	-	-	-	-	-	-	73,450	-	73,450
Transport, Storage & Communication	United Arab Emirates	88,829	411	20,236	1,600	2,709	844,070	67,368	324,017	1,699,241	2,325,238	5,373,719
	Other GCC	-	-	-	-	-	-	-	-	-	109,952	109,952
	Europe	-	-	-	-	-	-	-	-	-	-	-
	Asia	4	-	-	-	-	-	-	-	84,468	-	84,472
	Others	-	-	-	-	-	-	-	-	-	-	-
	Grand Total	5,370,100	2,696,016	1,744,617	1,411,511	1,122,400	6,789,983	2,292,324	1,934,952	10,521,484	25,887,206	59,770,593

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Amounts of impaired exposures and related allowances and write-offs, broken down by geographical areas and industry.

Amount (AED'000)				
Industry	Country	Non Performing Loan	ECL	Write-off
Agriculture and Allied Activities	United Arab Emirates	-	-	-
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Construction	United Arab Emirates	1,135,410	713,701	60,562
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Electricity, Gas and Water	United Arab Emirates	-	-	-
	Other GCC	47,932	22,035	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Government	United Arab Emirates	-	-	-
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Loans to Individuals/HNIs/Others	United Arab Emirates	606,740	196,114	329,414
	Other GCC	6,538	80	41
	Europe	406	39	-
	Asia	10,376	7,252	330
	Others	13,058	1,438	5,493
Manufacturing	United Arab Emirates	828,713	334,541	80,507
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-

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Amounts of impaired exposures and related allowances and write-offs, broken down by geographical areas and industry.

Amount (AED'000)				
Industry	Country	Non Performing Loan	ECL	Write-off
Mining & Quarrying	United Arab Emirates	-	-	-
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Non Banking Financial Institutions	United Arab Emirates	-	-	-
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Other Services	United Arab Emirates	597,074	557,545	228,985
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Real Estate	United Arab Emirates	642,020	437,950	-
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	18,501	-	-
Trade	United Arab Emirates	863,268	576,907	194,895
	Other GCC	204	204	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Transport, Storage & Communication	United Arab Emirates	10,308	1,282	-
	Other GCC	-	-	-
	Europe	-	-	-
	Asia	-	-	-
	Others	-	-	-
Grand Total		4,780,548	2,849,088	900,227

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Amount (AED'000)													
Ageing analysis of accounting past-due exposures	Exposure				Interest in Suspense				Net				
	Industry, Past Due & Stage	<30 DPD	31-60 DPD	61-90 DPD	90+ DPD	<30 DPD	31-60 DPD	61-90 DPD	90+ DPD	<30 DPD	31-60 DPD	61-90 DPD	90+ DPD
Industry													
Corporate and Commercial	338,352	20,361	75,709	3,315,408	-	-	-	(33,217)	338,352	20,361	75,709	3,282,191	
Personal Banking	108,704	31,167	21,320	190,464				(719)	108,704	31,167	21,320	189,745	
Non Banking Financial Institutions	1								1	-	-	-	

Breakdown of restructured exposures between impaired and non impaired exposures

Amount (AED'000)			
Impaired / Not Impaired	Funded Exposure	Unfunded Exposure (CCF)	Total Exposure
Impaired	1,804,963	236,636	2,041,599
Not impaired	1,133,970	7,313	1,141,283
TOTAL	2,938,933	243,949	3,182,882

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CRC - Qualitative disclosure requirements related to credit risk mitigation techniques

The bank while granting the credit facilities would assess the capacity of the borrower to repay rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and the general policy is to promote the use of credit risk mitigation, justified by commercial prudence and good practice as well as capital efficiency. Specifically, detailed policies cover the acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigation, for example in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Policies and procedures govern the protection of HBME UAE's position from the outset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations and through controls over the integrity, current valuation and if necessary, realisation of collateral security.

Netting

The UAE Government passed the UAE Federal Law No. 10 of 2018 (the Netting Law) on the 20th Sep 2018 regulating netting for the first time in the UAE on a standalone basis and placing the UAE between the positive netting jurisdictions of sophisticated legal systems by following the guidelines of the International Swaps and Derivatives Association (ISDA) Model Netting Act 2006. Since then HBME UAE has signed collateral agreements under ISDA (i.e. Credit Support Annexes "CSA") with local and international banks. HSBC UAE considers these netting arrangements when calculating Potential Future Exposure (PFE) against clients where it has CSAs signed. Netting is not considered for any other on balance sheet or off-balance sheet risk measurements (Wrong Way Risk, financing transactions limit monitoring where HSBC UAE enters into Repo and Reverse Repo transactions with same clients). These limits are monitored and reported at gross levels.

Collateral

The most common method of mitigating credit risk is to take collateral. In HBME UAE's retail residential and Corporate Real Estate (CRE) businesses, a mortgage over the property is usually taken to help secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Facilities to SMEs are commonly granted against guarantees given by their owners and/or directors. Guarantees from third parties can arise where the Group extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank. Secured Lending Policy processes are developed & implemented to manage the high level of risk emanating from effects of cyclical developments on local housing markets. Valuation policies,

including enrollment of valuation firms are owned by Credit Risk function to adhere with regulatory LTV requirement, and to manage credit risk throughout the mortgage life cycle. Insurance protection requirement is embedded in to Credit policy to manage the life risk of borrower & physical risk on collateral properties.

Valuing collaterals

Local market conditions determine the frequency of valuation for Corporate Real Estate (CRE). Revaluations are sought where, for instance, as part of the regular credit assessment of the obligor, material concerns arise in relation to the performance of the collateral. CRE revaluation also occurs commonly 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. Where such concerns exist, the revaluation method selected will depend upon the loan to value relationship, the direction in which the local CRE market has moved since last valuation, and most importantly the specific characteristics of the underlying commercial real estate which is of concern.

Other Forms of Credit Risk Mitigation

In corporate lending, the Group also takes guarantees from corporates and Export Credit Agencies. Corporates would normally provide guarantees as part of a parent/subsidiary or common parent relationship and would span a number of credit grades. The Export Credit Agencies will normally be investment grade. Concentration risk for Retail business is managed through Portfolio Exposure caps, and diversification of asset book across secured & unsecured products. Granular caps & triggers are implemented to diversify the risk within portfolios.

Management of Residual Credit Risk

Residual credit risk is the risk that credit risk mitigation techniques prove less effective than expected. Default cases where the credit losses result from the failure of credit risk mitigation techniques remain part of the dataset used for local / Regional PD model development and calibration with additional prudential buffer. The Group's approach to credit risk measurement for regulatory and economic capital therefore incorporates any potential residual risk.

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CR3 - Credit risk mitigation techniques - overview

		Amount (AED'000)					
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives, of which: secured amount
1	Loans	59,639,263	610,367	601,618	4,576,407	4,576,407	-
2	Debt securities	33,941,743	-	-	-	-	-
3	Total	93,581,006	610,367	601,618	4,576,407	4,576,407	-
4	Of which defaulted	1,381,950	1,770	1,770	-	-	-

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CRD - Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

The standardised approach is applied for credit risk exposures. The standardised approach requires banks to use risk assessments prepared by external credit assessment institutions

('ECAIs') or ECAs to determine the risk weightings applied to rated counterparties. ECAI risk assessments are used as part of the determination of risk weightings for the following classes of exposure:

- 1) Sovereigns and Central banks
- 2) Public Sector Entities
- 3) Multilateral Development Banks
- 4) Banks
- 5) Corporates

The bank uses three ECAIs for this purpose – Moody's Investor Service ('Moody's'), Standard and Poor's rating agency('S&P') and Fitch Ratings ('Fitch').

S & P	Fitch	Moody's	Credit Quality Step
AAA to AA-	AAA to AA-	Aaa to Aa3	1
A+ to A-	A+ to A-	A1 to A3	2
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	3
BB+ to BB-	BB+ to BB-	Ba1 to Ba3	4
B+ to B-	B+ to B-	B1 to B3	5
Below B-	Below B-	Below B3	6
Unrated	Unrated	Unrated	Unrated

Exposures to, or guaranteed by, Central Governments and Central Banks of the European Economic Area ('EEA') states are risk weighted at 0% provided that they are denominated and funded in local currency or qualify for that weight by virtue of their external rating.

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CR4 - Credit risk exposure and Credit Risk Mitigation (CRM) effects

Amount (AED'000)							
	Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	48,415,103	649,606	48,415,103	5,348	407,182	1%
2	Public Sector Entities	9,844,300	5,603,968	9,844,300	2,186,355	6,866,105	57%
3	Multilateral development banks	2,359,804	-	2,359,804	-	-	0%
4	Banks	11,529,361	6,733,992	11,529,361	3,375,136	5,127,527	34%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	24,037,391	58,472,766	24,037,391	15,844,891	35,273,701	88%
7	Regulatory retail portfolios	4,225,469	5,486,338	4,225,469	1,022	3,299,082	78%
8	Secured by residential property	7,045,284	-	7,045,284	-	3,053,765	43%
9	Secured by commercial real estate	-	-	-	-	-	0%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	0%
11	Past-due loans	930,322	601,520	930,322	601,520	1,693,415	111%
12	Higher-risk categories	-	-	-	-	-	0%
13	Other assets	2,497,651	-	2,497,651	-	2,788,619	112%
14	Total	110,884,686	77,548,190	110,884,686	22,014,272	58,509,395	44%

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CR5 - Exposures by asset classes and risk weights

Amount (AED'000)										
	Risk weight	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
	Asset classes									
1	Sovereigns and their central banks	46,780,999	1,540,337	-	-	-	99,115	-	-	48,420,451
2	Public Sector Entities	1,675,970	2,127,521	-	3,573,127	-	4,654,037	-	-	12,030,655
3	Multilateral development banks	2,359,804	-	-	-	-	-	-	-	2,359,804
4	Banks	142,475	7,934,858	-	6,573,219	-	253,946	-	-	14,904,497
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	3,198,466	320,143	-	2,073,643	-	33,508,684	36	781,310	39,882,282
7	Regulatory retail portfolios	5,451	-	-	-	3,687,830	533,210	-	-	4,226,491
8	Secured by residential property	560	-	5,975,205	-	428,307	641,213	-	-	7,045,284
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	19,540	-	-	-	-	1,150,077	362,225	-	1,531,843
12	Higher-risk categories	-	-	-	-	-	-	-	-	-
13	Other assets	576,115	128,219	-	-	-	1,146,879	-	646,438	2,497,651
14	Total	54,759,380	12,051,078	5,975,205	12,219,989	4,116,137	41,987,159	362,261	1,427,749	132,898,959

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CCRA - Qualitative disclosure related to counterparty credit risk

The standard methodology for measuring counterparty risk exposure assumes there is no correlation between the creditworthiness of the counterparty and the replacement cost of transactions undertaken with that counterparty. Wrong way risk (WWR) occurs when exposure is materially adversely correlated with the credit quality of the counterparty and arises when default risk and credit exposure increase strongly together. WWR analysis and reporting is complementary to standard counterparty risk measures and provides additional control and monitoring.

General wrong way risk

General WWR (GWWR) occurs when a counterparty's probability of default is positively correlated with moves in general market risk factors such as foreign exchange rates. For example, the default probability of a counterparty may increase with a depreciation of the domestic currency if the depreciation affects their business model. Trading OTC contracts with such a counterparty which become more valuable to the bank as the currency depreciates represents GWWR.

Specific wrong way risk

Specific WWR (SWWR) transactions are self-referencing transactions where future exposure is expected to be high when the counterparty's probability of default is also high. SWWR occurs where a legal ownership relationship exists between the counterparty and collateral issuer or between the counterparty and reference asset of a derivative. e.g. reverse repos on a counterparty's own bonds; for central bank counterparties this includes reverse repos referencing in-country sovereign bonds. It can also occur in basket or index transactions where the index or basket references the capital or financing instrument of the counterparty.

SWWR could also occur if a client posts its own capital instruments as initial or variation margin. No risk mitigation benefit should be recognised for such collateral for exposure measurement purposes.

All countries and counterparties are within scope.

a. HSBC UAE's WWR Measurement and Controls

i) HSBC follows a country based frame work for WWR trades.

ii) For the purposes of the country-based GWWR framework, exposure is measured using gross notional amounts. This approach is used because it is conservative and appropriate in countries where netting and collateral agreements are not routinely used or enforceable legally. WWR measurement and limits are complementary to existing measures of potential future exposure

iii) HSBC assigns country risk classifications which are prime, normal, fair, case-by-case, restricted and constrained. This tiering is used to differentiate WWR measurement and limits. Transactions are included in the measurement of GWWR when they exceed defined tenors. These tenors, which represent the residual maturity of the transaction, are a function of the quality of the country and are outlined below:

- 35 days for countries classified as constrained, restricted or case-by-case;
- 95 days for countries classified as prime, normal or fair where those countries are incorporated in the Wrong-Way Risk process.

iv) Self-referencing trades are subject to a pre-trade approval framework run by regional traded credit risk

v) SWWR transactions (including reverse repos with central banks on in-country government bonds) should be recorded at 100% of notional for Category B limit and measurement purposes.

vi) WWR Limit approval process follow the same procedure as Market Risk limits, as mentioned earlier in the document. WWR breaches are also subject to the same escalations as market risk limits mentioned earlier in the document

vii) WWR reporting is carried out at least on a monthly basis

b. HSBC UAE's WWR Exposure

i) Given HSBC UAE's Market of operations and product offering, exposure for WWR trades primarily comes from forward dated FX transactions and Reverse Repo (RRP) trades.

ii) For forward FX transactions HSBC considers WWR transactions where HSBC buys USD (or other FCY currencies) against local currencies. In line with the HSBC WWR policy, the entire notional of the trade gets recorded as GWWR exposure.

iii) In case of RRP transactions, WWR is considered where the country of risk for the borrower and the underlying collateral are the same.

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CCR1 - Analysis of counterparty credit risk (CCR) exposure by approach.

	Amount (AED'000)					
	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	910,932	4,513,375		1.4	7,594,030	4,001,844
Internal Model Method (for derivatives and SFTs)			-	-	-	-
Simple Approach for credit risk mitigation (for SFTs)					21,667,268	5,676,413
Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
VaR for SFTs					-	-
Total						9,678,257

CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk weights

	Amount (AED'000)							
Risk weight	0%	20%	50%	75%	100%	150%	Others	Total credit exposure
Regulatory portfolio								
Sovereigns	119,524	-	-	-	1,080,585	-	-	1,200,109
Public Sector Entities (PSEs)	10,307	200,822	696,229	-	376,606	-	-	1,283,964
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	6,513,086	11,262,692	6,732,424	-	1,182,002	-	-	25,690,204
Securities firms	-	-	-	-	-	-	-	-
Corporates	7,045	43,648	28,062	-	1,006,247	2,018	-	1,087,020
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	6,649,963	11,507,162	7,456,715	-	3,645,439	2,018	-	29,261,298

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CCR5 - Composition of collateral for CCR exposure

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	185,535	-	4,407	-	-
Domestic sovereign debt	-	-	-	-	326,694	-
Government agency debt*	-	-	-	-	6,734,038	-
Corporate bonds	-	-	-	-	94,086	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	628,407	-
Total	-	185,535	-	4,407	7,783,225	-

CCR6 - Credit derivative exposures

	Amount (AED'000)	
	Protection bought	Protection sold
Notionals	-	-
Single-name credit default swaps	596,781	213,005
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	596,781	213,005
Fair values	-	-
Positive fair value (asset)	2,063	905
Negative fair value (liability)	(4,138)	(1,465)

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MRA - General qualitative disclosure requirements related to market risk

(a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges.

(b) Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management.

(c) The scope and nature of risk reporting and/or measurement systems. For example, banks should include descriptions relating to positions covered by the approach and the underlying trading activities that impact each type of market risk factor (e.g. interest rate risk factors, equity risk factors, foreign exchange risk factors, commodity risk factors). These may include: (a) their risk analysis and risk management systems; (b) how (a) corresponds to the nature and volume of transactions; (c) how reporting and measurement systems provide an overall understanding of all the risks associated with the bank's market activities, including, at least on a day-to-day basis, the risks resulting from trading book positions;

(d) a description of the organizational and internal control procedures;

(e) the communication mechanisms between the different parties involved in risk management (management body, senior management, business lines and central risk management function); and

(f) the frequency of reporting and the process set up to regularly update and assess the reporting and measurement systems.

Market risk is the risk of loss on financial instruments from changes in market variables – e.g. interest rates, foreign exchange rates, equity prices and credit spreads.

The existence of market risk limits does not confer any credit limits which must be separately established where applicable. Equally, the granting of a credit limit does not confer any authority to take market risk. Market risk limits are separately established. All open market risk must be subject to approved limits. In HSBC UAE these limits are reviewed at least on an annual basis and formally delegated.

As per the bank's policy, it is the responsibility of the management to ensure that market risk is only taken by Markets and Securities Services (MSS) businesses within authorized limits. Units other than MSS must transfer market risk to the MSS business, either by an internal transaction between the two areas, or by the inclusion of the transaction in the MSS business' dealing position. The market risk limit

mandate of the entity should encompass all market risks taken. Exceptions to this rule should be explicitly agreed with local management, such as ALCO and with Group WMR. Any exceptions must be subject to the same control and reporting requirements as that applied to risk taken by MSS, including annual review of limits by Group WMR.

HSBC UAE generates exposure to Market Risk from its market making activity through which it services its clients and provides liquidity to the market it operates in.

HSBC UAE Risk Profile

HSBC UAE runs three major types of market risk, which are predominantly linear in nature:

- Interest Rate (IR) Risk
- Foreign Exchange (FX) Risk
- Credit Spread (CS) Risk

The main generator of market risk in HSBC UAE is through derivative transactions, which it engages in as a market-maker to service clients seeking financial services or risk management solutions. The bank also engages in vanilla FX transactions, which generate FX risk. Given the market that the bank operates in, most of the market risk is linked to MENA currencies and interest rates. Any non-MENA risk is limited or is maintained as macro hedges to the rest of the portfolio.

The bank does not run any direct or open equity risk. The bank has the mandate to run equity derivatives to service its clients on a back-to-back (B2B) basis only (the market risk is transferred to other group entities, while related counterparty risk remains with the local entity)

The bank does not run or have the mandates to run complex risks, which include, but is not limited to, optionality. All complex derivatives are run on a (B2B) basis only (the market risk is transferred to other group entities, while related counterparty risk remains with the local entity). The bank can only buy options (FX or IR) as principal, which limits the risk to the premium paid to purchase the option. This in turn is monitored through the Premium Paid limit

The bank operates on a hub and spoke model where regional sites transfer most of their market risk to be managed centrally on the Dubai trading desks. Small limits are set in regional sites to support flow business but majority of the limits sit in UAE operations.

All market risk generating from other non-MSS businesses is transferred to MSS systems on a daily basis through buy-in processes run by the Global Markets Middle Office team. IR and FX buy-in are the two major exercises run on daily basis.

The bank also has an effective Hedging programme, which is run within Markets Treasury, where they hedge interest rate and cash flow risk. This is done using Interest Rate Swaps and Cross Currency Swap derivative contracts. The hedges are effective as long as the hedged item and the hedged instrument valuations move between an 80%-120% ratio on an ongoing basis and 90%-110% ratio at inception. Failure to meet this ratio results in the de-designation of the hedge. The Hedge Accounting Control Committee (HACC) meets at least on a monthly basis where details of ongoing hedges and their effectiveness is discussed along with future hedging strategies.

HSBC UAE Limit Proposal, Approvals and Set up

a) Market Risk limits are reviewed at least on a yearly basis. A lite version, the semi-annual review is conducted mid-year to account for any changes in business or market dynamics occurring after the annual review.

b) Limits are proposed by the Traded Risk, which is a sub-function of Wholesale Credit and Market Risk (WCMR) under Risk.

The following non-exhaustive items are considered in determining the level at which market risk limits are set, approved and delegated for each operation: the size and financial and capital resources of the business, the business plan and market of operation, the experience and track record of the management and traders, market depth and liquidity, internal audit grading, support function resources and IT systems.

i) Market risk limits are granular to ensure that large and significant concentrations to risk factors, sectors and counterparties are not allowed to be built up that could threaten the ongoing operations of the bank.

ii) Limits take into consideration the entity risk appetite and approved limits are monitored in the entity Risk Appetite Statement (RAS). Any high utilization (>80%) is reviewed and any breach of the limits is immediately notified and addressed with appropriate action to rectify the excess.

iii) Proposed limits are approved by HSBC UAE senior management, including Head of Trading, Head of Markets Treasury, Head of MSS, Head of Traded Risk and the Head of WCMR (as the delegate for Principal Office Manager, the CEO). The approved limits are presented to the Risk Management Meeting (RMM) for approval, following which those limits are presented to the entity board for final challenge and approval.

iv) After local approvals, the limits are sent for Group Traded Risk where they are approved by Global Asset Class Heads (GACH) and the Global Head of Traded Risk. A formal confirmation is sent stating that these limits can be monitored locally.

v) Due to time sensitivity of the overall process the limits are sent to Group Traded Risk before RMM and Board approvals subject to the frequency or timings of these meetings.

vi) Interim amendments of market risk limits at consolidated regional entity or entity level are permitted. All requests for limits should have the support of senior management of the entity and/or the region and requests must be able to be independently monitored.

vii) "One-off" transaction proposals which require limit amendments may be submitted but must also have been through a sufficient due diligence process and carry senior management support prior to submission to Group WMR.

viii) Once concurrence has been provided by Group WMR and approval has been provided by the regional RMM & the HSBC UAE board, the consolidated regional entity and entity mandates have to be delegated to the Regional Heads of Global Markets. Further delegation is required until at least to the trading desk level.

Limit Monitoring

- a) Market Risk limit utilizations are monitored and reported against applicable limits on a daily basis
- b) These are monitored independently by Market Risk Control and signed off dually by Regional Market Risk Managers as Second Line of Defense and MSS as Risk Owners (First line of Defense)
- c) Daily limit utilizations and trends are reordered and available for view on the system and through various MI reports
- d) HSBC UAE also monitors market risk limits through its RAS, which include the following measures
 - Value at Risk (99%, 1Day) for the trading book
 - Stressed Value at Risk (99%, 1Day) for the trading book
 - Traded Credit Mark to Market (Excluding Collateral)
- e) Any high utilizations (>80% utilizations) are reviewed and flagged for management view on reporting system

Any limit breaches (excesses) are investigated and highlighted on the system. An excess letter is issued detailing reason for the breach, along with remedial action where necessary. These are also reported in the local MSS Risk Oversight Meeting (ROM). Where required, a detailed resolution plan for the occurred breach is provided in the excess letter issued.

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MR1 - Market risk under the standardised approach (SA)

		Amount (AED'000)
		RWA
1	General Interest rate risk (General and Specific)	7,481,107
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	1,078,321
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	Total	8,559,429

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IRRBB - IRRBB risk management objectives and policies

Interest Rate Risk in the Banking Book (IRRBB) refers to the risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. The term 'banking book' refers to assets and liabilities that are not classified as trading in accordance with the regulatory definition.

HSBC UAE uses different strategies to manage the IRRBB and this includes interest rate swaps within hedge accounting, and behaviouralisation of non-maturity deposits. Non-maturity deposits are behaviouralised based on their stability using historical data for this analysis, and deployment opportunities in the market.

EVE is defined as the difference between the present value of the institutions asset's minus the present value of liabilities', including off-balance sheet and is calculated on a run off profile. The change in EVE is defined as the difference between the EVE estimated with stressed discount factor under various scenarios, minus the EVE estimated with the discount factors as of the portfolio reporting date. NII is defined as the difference between total interest (profit) income and total interest (profit) expense over a specific time horizon and taking into account hedging. The change in NII is defined as the difference between the NII estimated with stressed discount factors under various scenarios, minus the NII estimated with the discount factor as of the portfolio reporting date. It is based on a static balance sheet. EVE excludes commercial margin from the cash flows and is discounted at risk free rate.

Standard set of assumptions are used (ie for EVE metric disclosure and for internal assessment of capital adequacy). The assumptions are based on historical data analysis which is reviewed, challenged and then approved in line with the bank's governance.

EVE and NII is calculated for material currencies.

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IRRBB1 - Quantitative information on IRRBB

Amount (AED'000)

In reporting currency (AED)	ΔEVE	ΔNII
Period	31-Dec-21	31-Dec-21
Parallel up	37	511
Parallel down	(138)	(433)
Steeper	(424)	0
Flattener	181	0
Short rate up	172	0
Short rate down	(516)	0
Maximum	0	0
Period	T	
Tier 1 capital	13,200	

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OR1 - General qualitative information on a bank's operational risk framework

HBME adopts the Group's Operational Risk Economic Capital (EC) model and methodology for the internal assessment of its Economic Capital.

The Group EC model uses a statistically modelled approach based on three key data sources:

- Internal loss data
- External risk events, from the Operational Risk data exchange (ORX)
- Scenarios analysis assessments

These data sources are used to assess the average frequencies of risk events and to fit severity distributions for each of the event types defined by Basel Committee guidelines (separating external fraud into card fraud and non-card fraud). The distributions are used to determine the 1:1000-year loss estimates which are simulated and aggregated to compute the EC. The EC computation for the bank is based on the historical loss data and scenario analysis results. For sub-risk categories where there are very few number of loss events within HBME UAE, regional or Group loss data is leveraged and applied to the frequency of events for HBME UAE.

Non-financial risk reporting is an important part of the Bank's Risk Management Framework. Non-Financial Risk (NFR) forms part of a standard agenda of the HBME UAE Risk Management Meeting (RMM), where NFR reports are presented and discussed. The scope of the reporting includes risk profile reports, top and emerging risks, risk appetite statements and thematic risk papers. HSBC HELIOS is the Bank's core NFR system of record and is used as the basis of NFR reporting.

NFR reporting is also a key agenda item for the UAE Executive Committee (EXCO) meetings. The scope of the reporting to the EXCO include the high level NFR reports and thematic papers in addition to other ad-hoc agenda items required by the Committee.

Risk mitigation is an integral part of the Bank's risk management policies and practices. Risk mitigation is achieved through application of control standards by establishing the necessary controls to mitigate risk and performing continuous monitoring and assessment of those controls. Actions are taken where deficiencies are identified within the control environment and these are recorded within the Bank's risk management system, HELIOS.

The Bank continuously assesses its operational risk transfer strategies to minimise the financial impact of material operational risk events. This includes regular review of the Bank's insurance coverage for the nature, scope and extent of risk mitigation in place compared to evolving risk exposures and historical loss experience. Amendments are made to the insurance cover as appropriate based on such evaluation and cost-benefit assessment. The Bank's contractual agreements are reviewed by legal teams to assess and manage the nature of risk mitigation and transfer that arise from such contracts.

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REMA - Remuneration Policy

Introduction

Our pay strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Group, while performing their role in the long-term interests of our stakeholders. To achieve this objective, we believe that effective governance of our remuneration practices is a key requirement. The design and implementation of remuneration policies are overseen by the Group Remuneration Committee to ensure what we pay our people is aligned to our business performance and strategy. Performance is judged not only on what is achieved over the period but more importantly on how it is achieved, as we believe the latter contributes to the long-term sustainability of the business.

Total compensation (fixed pay and variable pay) is the key focus of our remuneration framework, with variable pay (namely annual incentive and long-term incentives) differentiated by performance and adherence to HSBC values. Our remuneration strategy is delivered through HSBC's reward package, consisting of five key elements:

Key elements Purpose

Fixed pay

- Attract and retain employees by paying market competitive pay for the role, skills and experience required for the business.
- This may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices.
- These payments are fixed and do not vary with performance.

Benefits

- Ensure market competitiveness and provide benefits in accordance with local market practice.
- This may include, but not limited to, the provision of pensions, medical insurance, life insurance, health assessment and relocation allowances.

Annual incentive

- Drive and reward performance based on annual financial and non-financial measures consistent with the medium- to long-term strategy, stakeholder interests and adherence to HSBC values.
- Awards vary with performance achievement and we have the discretion to assess the extent to which performance has been achieved.
- Awards can be in the form of cash and/or shares. A portion of the annual incentive award may be deferred and vests over a period of three years, five years or seven years. All deferred awards are subject to malus.
- Share-based awards are subject to a retention period of up to one year after vesting.
- Awards granted to employees identified as material risk takers ('MRTs') are subject to clawback

Long-term incentive awards ('LTI')

- Incentivise sustainable long-term performance through the use of both pre- and post-grant performance measures.
- Awards are subject to malus and clawback and we have the discretion to assess the extent to which performance has been achieved.
- Awards are in shares and subject to a three-year performance period. At the end of the performance period, the awards that vest will be dependent on the outcome of the performance condition. The vesting for executive Directors is in five equal annual installments with the first vesting occurring on the third anniversary of the grant date and the final vesting occurring on the seventh anniversary of the grant.
- LTI awards are subject to a retention period of up to one-year after vesting. Shareholding requirement
- Align interests of senior management with shareholders' interests through a shareholding requirement during their employment at HSBC.

Governance framework and oversight

The Group Remuneration Committee ('the Committee') oversees the Group's reward policy and its application to Group businesses and functions. All members of the Committee are independent non-executive Directors of HSBC Holdings plc.

The Committee is responsible for: To ensure the alignment of remuneration and risk:

- Reviewing and approving the principles, parameters and governance framework of the Group's remuneration framework applicable to all Group employees;
- Setting the Directors' Remuneration Policy and remuneration for non-executive and executive Directors, and approving the remuneration for other Senior Executives of the Group;
- Reviewing and satisfying itself that the remuneration structure for MRTs is in accordance with prevailing regulatory requirements;
- Ensuring that remuneration for employees in Risk and Compliance functions is determined dependently of other business areas;
- Ensuring that no executive Director or member of senior management is involved in deciding their own remuneration;
- Reviewing any matters relating to remuneration that need to be reported to shareholders, regulators and others; and
- Assessing that there are effective safeguards in place to ensure that remuneration practices are clearly aligned with the Group's risk appetite and the regulatory and other legislative requirements that the Group is required to comply with.
- The Group Chief Risk Officer attends all Committee meetings to inform the Committee of risk related issues across the Group so they are considered by the Committee in applying the remuneration framework and making remuneration decisions.

The Group Chief Risk Officer also updates the Committee on the Group's performance against the Risk Appetite Statement ('RAS'), which describes and measures the amount and types of risk that HSBC is prepared to take in executing its strategy. The Committee uses these updates in applying the remuneration policy and considering the risk related adjustments made to the variable pay pool, to ensure that return, risk and remuneration are aligned.

- The Committee consults with the Group Risk Committee ('GRC') on the alignment of risk and remuneration and on risk adjustments to be applied in setting annual variable pay pool.
- The Financial System Vulnerabilities Committee ('FSVC') provide input to the Committee's decision of any adjustment for risks that are under the FSVC's oversight.

- The Committee also considers material issues raised by the Group Audit Committee ('GAC')
- resulting from the work of Internal Audit, including communication of relevant internal audit findings on remuneration matters. The Committee provides feedback to the GAC on these matters.

The Committee reviews its terms of reference annually and its own effectiveness as well as the quality of information it receives and recommends any necessary change.

UBLIC

Remuneration practices promoting sound and effective risk management and supporting our business objectives

Under our remuneration framework, remuneration decisions are made based on a combination of:

- Business results, including performance against strategic objectives and metrics in the Group RAS. This statement is a formal written articulation of the aggregate level and types of risks that the bank is willing to accept in its business activities in order to achieve its medium to long-term strategic objectives;
- Performance against Group's strategic objectives set out in performance scorecards. Core aspects of the RAS are also incorporated into the scorecards of executive Directors and Group Management Board ('GMB') and cascaded to global business lines and regions;
- Adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards. Risk objectives are included into the performance scorecard of senior management and there is a mandatory global risk objective applied for all employees below the GMB in order to highlight the importance of managing risk and ensure its consistent reinforcement;
- Individual performance; and
- Local market position and practice. The key features of our remuneration framework that enable us to achieve alignment between risk, performance and reward are summarised below. Further details can be found in the HSBC Holdings plc *Annual Report and Accounts*:

Scorecards

- Assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework.
- Global Standards including risk and compliance measures set at a minimum of 25% of the scorecard for GMB members.

Group variable pay pool calculation

- Fines and penalties are automatically included in the Committee's definition of profit.
- Performance against metrics in the Group RAS and conduct framework is taken into consideration.

Deferral of variable pay

- A Group-wide deferral approach is applicable to all employees across the Group, where deferral is applied to annual incentive award above a certain level.
- Deferral of variable pay into HSBC shares and/or other instruments to tie recipients to the future performance of the Group and business units.

Malus/adjustment policy

- Allows cancellation/reduction of unvested deferred variable pay awards
- This is in addition to in-year variable pay adjustments and other disciplinary actions that can be taken.

Clawback policy

- Subject to compliance with local labour laws, clawback can be applied to vested or paid awards granted on or after 1 January 2022 for a period of seven years.

Sales incentives: We generally do not operate commission-based sales plans.

The following programmes help to embed values in our remuneration structure and ensure greater global consistency in our approach to achieving alignment between risk and reward:

Behavioural rating for all employees

Subject to compliance with local labour laws, employees receive a behaviour rating based on their adherence to HSBC values to ensure performance is judged not only on what is achieved, but also on how it is achieved.

Performance Management

- Performance objectives define what you need to achieve, how and by when. Creating performance objectives is a key part of Everyday Performance and Development, enabling employees and managers to agree actions and targets in line with business and role priorities. They should be updated throughout the year as priorities change.
- Everyday Performance and Development involves frequent, holistic and meaningful conversations throughout the year between a manager and employee. They provide an opportunity to discuss progress, provide feedback and recognition, identify any support that may be needed and address any issues that could be affecting the employee's sense of well-being.

Employee Recognition and Conduct framework

- The framework provides a set of guidelines designed to reward exceptional conduct and handle any conduct breaches consistently across the Group.
- Rewarding positive conduct may take the form of use of our global recognition programme 'At Our Best', or via positive adjustments to performance and behaviour ratings and variable pay.
- The framework also provides guidance on applying negative adjustments to performance and behavior ratings and to variable pay, alongside disciplinary sanctions,
- where conduct breaches have been identified.

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REM1 - Remuneration awarded during the financial year

			Amount (AED'000)
	Remuneration Amount	Senior Management	
1	Fixed Remuneration	Number of employees	8
2		Total fixed remuneration (3 + 5 + 7)	12,956
3		Of which: cash-based	12,956
4		Of which: deferred	-
5		Of which: shares or other share-linked instruments	-
6		Of which: deferred	-
7		Of which: other forms	-
8		Of which: deferred	-
9	Variable Remuneration	Number of employees	8
10		Total variable remuneration (11 + 13 + 15)	11,116
11		Of which: cash-based	6,235
12		Of which: deferred	2,801
13		Of which: shares or other share-linked instruments	4,881
14		Of which: deferred	2,905
15		Of which: other forms	-
16		Of which: deferred	-
17	Total Remuneration (2+10)		24,072

The fixed pay information in this section is based on PY2021 fixed pay for the listed senior management in AED

The variable pay information is based on PY2021 VP, the values in line 13 & 14 (share based award) is the AED value of the variable pay for which the shares will be granted. A portion of these shares will be immediate and a portion deferred.

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REM3 - Deferred remuneration

Deferred and retained remuneration	Amount (AED'000)				
	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	-	-	-	-	-
Cash	6,307	-	-	-	2,920
Shares	7,495	-	-	-	5,088
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	-	-	-	-	-
Cash	-	-	-	-	-
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	13,802	-	-	-	8,008

Total amount of outstanding deferred awards are balance as at 25Feb 2022, deferred cash in denoted in AED.

Total deferred award in AED paid in PY2021 from prior years is recorded in last column and the numbers of shares vested during PY2021. Some of these awards are subject to retention.