

**HSBC Bank Middle East Limited - UAE Operations
Pillar III Disclosures
for the period ended 30 September 2022**

Pillar III Reports

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

Amount (AED'000)

| | Available capital (amounts) | Q3'2022 | Q2'2022 | Q1'2022 | Q4'2021 |
|---|--|-------------|-------------|-------------|-------------|
| 1 | Common Equity Tier 1 (CET1) - a | 13,726,585 | 14,105,379 | 12,649,911 | 13,920,160 |
| 1a | Fully loaded ECL accounting model | 2,823,158 | 2,806,523 | 2,880,685 | 3,616,728 |
| 2 | Tier 1 | 13,726,585 | 14,105,379 | 12,649,911 | 13,920,160 |
| 2a | Fully loaded ECL accounting model Tier 1 | 2,823,158 | 2,806,523 | 2,880,685 | 3,616,728 |
| 3 | Total capital | 14,581,560 | 14,982,319 | 13,465,171 | 14,772,507 |
| 3a | Fully loaded ECL accounting model total capital | 2,823,158 | 2,806,523 | 2,880,685 | 3,616,728 |
| Risk-weighted assets (amounts) | | | | | |
| 4 | Total risk-weighted assets (RWA) - b | 87,141,808 | 89,564,479 | 83,644,634 | 85,287,846 |
| Risk-based capital ratios as a percentage of RWA | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 15.75% | 15.75% | 15.12% | 16.32% |
| 5a | Fully loaded ECL accounting model CET1 (%) | 21% | 20% | 23% | 26% |
| 6 | Tier 1 ratio (%) | 15.75% | 15.75% | 15.12% | 16.32% |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | 21% | 20% | 23% | 26% |
| 7 | Total capital ratio (%) | 16.73% | 16.73% | 16.10% | 17.32% |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 15.75% | 15.75% | 15.12% | 16.32% |
| Additional CET1 buffer requirements as a percentage of RWA | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.50% | 2.50% | 2.50% | 2.50% |
| 9 | Countercyclical buffer requirement (%) | 0 | 0 | 0 | 0 |
| 10 | Bank D-SIB additional requirements (%) | 0 | 0 | 0 | 0 |
| 11 | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10) | 2.50% | 2.50% | 2.50% | 2.50% |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 3.73% | 3.73% | 3.10% | 4.13% |
| Leverage Ratio | | | | | |
| 13 | Total leverage ratio measure | 159,030,190 | 170,361,196 | 169,532,390 | 169,335,954 |
| 14 | Leverage ratio (%) (row 2/row 13) | 8.63% | 8.28% | 7.46% | 8.22% |
| 14a | Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13) | 1.78% | 1.65% | 1.70% | 2.14% |
| 14b | Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) | 8.63% | 8.28% | 7.46% | 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 - c | 18,084,871 | 23,800,734 | 31,339,964 | 29,145,175 |
| 22 | Total liabilities | 115,952,535 | 123,341,490 | 121,464,895 | 121,451,021 |
| 23 | Eligible Liquid Assets Ratio (ELAR) (%) | 18.87% | 23.23% | 30.96% | 28.63% |
| ASRR | | | | | |
| 24 | Total available stable funding | 91,309,929 | 96,224,039 | 96,921,769 | 90,804,223 |
| 25 | Total Advances - d | 65,012,526 | 72,514,636 | 64,423,629 | 60,219,535 |
| 26 | Advances to Stable Resources Ratio (%) - d | 71.20% | 75.36% | 66.47% | 66.32% |

Notes :

a - The movement is primarily driven by dividend proposed *subject to CB approval*

b - Lower RWAs is mainly driven by reduction in RWAs against residential mortgages and reduction in market risk RWAs on account of lower FX risk partially offset by increase in CCR RWAs mainly driven by higher exposure in derivatives and securities financing transaction mainly with Banks.

c - The movement is mainly driven by reduction in UAE M-bills

d - Comparing to previous quarter, lending has been reduced against deposit held, hence the ratio has been improved

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

Amount (AED'000)

| | RWA | | Minimum capital requirements |
|--|------------|------------|------------------------------|
| | Q3'2022 | Q2'2022 | Q3'2022 |
| 1 Credit risk (excluding counterparty credit risk) - a | 59,473,778 | 61,458,043 | 6,244,747 |
| 2 Of which: standardised approach (SA) | 59,473,778 | 61,458,043 | 6,244,747 |
| 3 | | | |
| 4 | | | |
| 5 | | | |
| 6 Counterparty credit risk (CCR) - b | 6,702,573 | 6,368,315 | 703,770 |
| 7 Of which: standardised approach for counterparty credit risk | 6,702,573 | 6,368,315 | 703,770 |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 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 | 12,827 | 634 | 1,347 |
| 16 Securitisation exposures in the banking book | | | - |
| 17 | | | |
| 18 Of which: securitisation external ratings-based approach (SEC-ERBA) | | | - |
| 19 Of which: securitisation standardised approach (SEC-SA) | | | - |
| 20 Market risk - c | 10,203,095 | 10,868,621 | 1,071,325 |
| 21 Of which: standardised approach (SA) | 10,203,095 | 10,868,621 | 1,071,325 |
| 22 | | | |
| 23 Operational risk | 8,540,678 | 8,540,678 | 896,771 |
| 24 | | | |
| 25 | | | |
| 26 Total (1+6+10+11+12+13+14+15+16+20+23) | 84,932,950 | 87,236,290 | 8,917,960 |

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LR1 - Summary comparison of accounting assets vs leverage ratio exposure

| | | Amount (AED'000) |
|-----------|---|--------------------|
| | | Q3'2022 |
| 1 | Total consolidated assets as per published financial statements * | 132,286,869 |
| 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 - a | 1,972,537 |
| 9 | Adjustment for securities financing transactions (ie repos and similar secured lending) - b | 1,377,302 |
| 10 | Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 24,884,916 |
| 11 | Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital | (552,824) |
| 12 | Other adjustments | (938,611) |
| 13 | Leverage ratio exposure measure | 159,030,190 |

Notes :

**Bank do not publish interim financials. The numbers included are as per reporting to Group net of provision*

a - CCR exposure for Derivatives transactions after adjusting fair value on derivatives

b - SFT transactions ie, repos and similar secured lending transactions

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LR2 - Leverage ratio common disclosure template

Amount (AED'000)

| On-balance sheet exposures | | Q3'2022 | Q2'2022 |
|--|---|--------------|--------------|
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) -a | 97,614,240 | 107,426,068 |
| 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) | (552,824) | (527,495) |
| 7 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6) | 97,061,417 | 106,898,573 |
| 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) | 3,208,224 | 1,836,696 |
| 9 | Add-on amounts for PFE associated with <i>all</i> derivatives transactions | 6,375,298 | 7,072,883 |
| 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) -b | 9,583,522 | 8,909,579 |
| Securities financing transactions | | | |
| 14 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions * | 26,119,401 | 25,315,921 |
| 15 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - | - |
| 16 | CCR exposure for SFT assets | 1,380,934 | 1,134,171 |
| 17 | Agent transaction exposures | - | - |
| 18 | Total securities financing transaction exposures (sum of rows 14 to 17) -c | 27,500,335 | 26,450,092 |
| Other off-balance sheet exposures | | | |
| 19 | Off-balance sheet exposure at gross notional amount -d | 77,420,394 | 79,936,667 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | (52,535,477) | (51,833,715) |
| 21 | Tier 1 capital) | - | - |
| 22 | Off-balance sheet items (sum of rows 19 to 20) | 24,884,916 | 28,102,952 |
| Capital and total exposures | | | |
| 23 | Tier 1 capital -e | 13,726,585 | 14,105,379 |
| 24 | Total exposures (sum of rows 7, 13, 18 and 22) | 159,030,190 | 170,361,196 |
| Leverage ratio | | | |
| 25 | Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) | 8.63% | 8.28% |
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) | 8.63% | 8.28% |
| 26 | CBUAE minimum leverage ratio requirement | 3% | 3% |
| 27 | Applicable leverage buffers | - | - |

Notes :

a - The movement is primarily driven by reduction in Securities portfolio and followed by reduction in Loans & advances

b - The movement relates to higher derivative exposure mainly in Bank's assets class

c - The movement is driven by higher RRP balance resulting in higher SFT exposure

d - The movement is driven by lower exposures under the Bank's asset class

e - The movement is primarily driven by dividend proposed * subject to CB approval *

* These includes Intra Group and third party reverse repo transactions

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ELAR - Eligible Liquid Assets Ratio

| | | Amount (AED'000) | |
|------------|--|-------------------|-----------------------|
| | | Q3'2022 | |
| 1 | High Quality Liquid Assets | Nominal amount | Eligible Liquid Asset |
| 1.1 | Physical cash in hand at the bank + balances with the CBUAE | 8,266,602 | |
| 1.2 | UAE Federal Government Bonds and Sukuks | 9,818,269 | |
| | Sub Total (1.1 to 1.2) | 18,084,871 | 18,084,871 |
| 1.3 | UAE local governments publicly traded debt securities | 519,399 | |
| 1.4 | UAE Public sector publicly traded debt securities | - | |
| | Sub total (1.3 to 1.4) | 519,399 | 519,399 |
| 1.5 | Foreign Sovereign debt instruments or instruments issued by their respective central banks | 3,272,479 | 3,272,479 |
| 1.6 | Total | 21,876,749 | 21,876,749 |
| 2 | Total liabilities | | 115,952,535 |
| 3 | Eligible Liquid Assets Ratio (ELAR)* | | 18.9% |

**Should not be < 10% at any time*

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ASRR - Advances to Stables Resource Ratio

| | | | Amount (AED'000) |
|----------|--------------|---|-------------------|
| | | | Q3'2022 |
| | | Items | Amount |
| 1 | | Computation of Advances | |
| | 1.1 | Net Lending (gross loans - specific and collective provisions + interest in suspense) | 54,895,027 |
| | 1.2 | Lending to non-banking financial institutions | 5,830,386 |
| | 1.3 | Net Financial Guarantees & Stand-by LC (issued - received) | 298,195 |
| | 1.4 | Interbank Placements | 3,988,918 |
| | 1.5 | Total Advances | 65,012,526 |
| 2 | | Calculation of Net Stable Resources | |
| | 2.1 | Total capital + general provisions | 16,503,972 |
| | | Deduct: | |
| | 2.1.1 | Goodwill and other intangible assets | 552,824 |
| | 2.1.2 | Fixed Assets | 883,112 |
| | 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 | 1,435,936 |
| | 2.2 | Net Free Capital Funds | 15,068,036 |
| | 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 | 4,082,176 |
| | 2.3.3 | Refinancing of Housing Loans | - |
| | 2.3.4 | Borrowing from non-Banking Financial Institutions | 3,952,701 |
| | 2.3.5 | Customer Deposits | 66,383,582 |
| | 2.3.6 | Capital market funding/ term borrowings maturing after 6 months from reporting date | 1,823,434 |
| | 2.3.7 | Total other stable resources | 76,241,893 |
| | 2.4 | Total Stable Resources (2.2+2.3.7) | 91,309,929 |
| 3 | | Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100) | 71.2% |

*Should not be >100% at any time