HSBC Bank Middle East Limited - UAE Operations

Annual Report and Accounts 2022

HSBC

Contents

Presentation of Information

This document comprises the *Annual Report and Accounts 2022* for HSBC Bank Middle East Limited – UAE Operations ('the Bank'). It contains the Financial Statements together with the Auditor's report and Additional information. References to 'HSBC' or 'the HSBC Group 'or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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Independent Auditor's Report

To the Chief Executive Officer of HSBC Bank Middle East Limited – UAE Operations

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the HSBC Bank Middle East Limited – UAE Operations (the "Bank"), which comprise the statement of financial position as at 31 December 2022 and the related income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (the "IESBA Code"), together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 March 2022.

Other Information

Management is responsible for the other information. The other information comprises the Additional information and the information included in the Annual Report of the Internal Shari'ah Supervision Committee but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (continued)
Report on the audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

GRANT THORNTON

GRANT THORNTON
Dr. Osama El-Bakry
Registration No: 935
Abu Dhabi, United Arab Emirates
Date: 22 March 2023

Income statement

for the year ended 31 December

	Notes	2022 AED000	2021 AED000
Net interest income		**2,488,979**	1,779,320
– interest income		**3,015,346**	1,893,454
– interest expense		**(526,367)**	(114,134)
Net fee income	3	**1,150,435**	1,153,085
– fee income		**1,515,020**	1,428,681
– fee expense		**(364,585)**	(275,596)
Net income from financial instruments held for trading or managed on a fair value basis		**1,058,229**	787,747
Changes in fair value of designated debt and related derivatives	4	**(8,956)**	(12,296)
Gains less losses from financial investments		**(17,440)**	41,011
Other operating income, net		**247,185**	291,427
Net operating income before change in expected credit losses and other credit impairment charges		**4,918,432**	4,040,294
Change in expected credit losses and other credit impairment charges	5	**3,908**	260,134
Net operating income		**4,922,340**	4,300,428
Employee compensation and benefits	6	**(1,631,875)**	(1,564,252)
General and administrative expenses		**(1,017,258)**	(899,314)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(88,952)**	(97,425)
Amortisation and impairment of intangible assets		**(119,249)**	(83,876)
Total operating expenses		**(2,857,334)**	(2,644,867)
Profit/(loss) before tax		**2,065,006**	1,655,561
Tax expense	8	**(324,467)**	(214,121)
Profit/(loss) for the year		**1,740,539**	1,441,440
Attributable to:			
– shareholder of the parent company		**1,740,539**	1,441,440
Profit/(loss) for the year		**1,740,539**	1,441,440

The accompanying notes on pages 9 to 65 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December

	2022 AED000	2021 AED000
Profit for the year	**1,740,539**	1,441,440
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value though other comprehensive income	**(271,966)**	(95,324)
– fair value gains/(losses)	**(308,838)**	(146,953)
– fair value (gains)/losses transferred to the income statement on disposal	**(17,440)**	41,016
– expected credit losses recognised in income statement	**(553)**	(198)
– income taxes	**54,865**	10,811
Cash flow hedges	**(60,964)**	(81,683)
– fair value gains/(losses)	**(71,512)**	(92,476)
– income taxes	**10,548**	10,793
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(11,103)**	(96,794)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**25,711**	5,396
Other comprehensive income/(expense) for the year, net of taxes	**(318,322)**	(268,405)
Total comprehensive income for the year	**1,422,217**	1,173,035

The accompanying notes on pages 9 to 65 form an integral part of these financial statements.

Statement of financial position

at 31 December

	Notes	2022 AED000	2021 AED000
Assets			
Cash and balances at central bank		**9,185,600**	2,479,265
Items in the course of collection from other banks		**123,252**	128,217
Trading assets	10	**6,559,399**	4,063,062
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**73,429**	—
Derivatives	13	**6,899,854**	3,680,300
Loans and advances to banks	25	**16,169,142**	19,392,939
Loans and advances to customers	25	**50,015,493**	50,957,162
Reverse repurchase agreements – non-trading		**22,064,566**	18,000,696
Financial investments	14	**19,677,336**	33,941,281
Prepayments, accrued income and other assets	17	**3,402,442**	3,052,141
Intangible assets	18	**630,608**	467,584
Deferred tax assets	8	**534,007**	719,689
Total assets		**135,335,128**	136,882,336
Liabilities and Head Office funds			
Liabilities			
Deposits by banks	25	**11,712,584**	18,344,639
Customer accounts	19	**86,036,533**	77,822,607
Repurchase agreements – non-trading		**3,429,224**	8,692,427
Items in the course of transmission to other banks		**588,896**	1,949,495
Trading liabilities	20	**1,351,711**	2,270,309
Financial liabilities designated at fair value	21	**3,986,253**	4,275,274
Derivatives	13	**6,416,727**	3,450,860
Debt securities in issue	22	**159,647**	309,539
Accruals, deferred income and other liabilities	23	**4,739,830**	4,133,778
Current tax liabilities		**122,789**	161,142
Provisions	24	**155,752**	259,779
Total liabilities		**118,699,946**	121,669,849
Head Office funds			
Allocated capital		**4,495,255**	4,495,255
Legal reserves		**2,247,628**	2,247,628
Other reserves		**766,163**	798,166
Unremitted profits		**9,126,136**	7,671,438
Total Head Office funds		**16,635,182**	15,212,487
Total liabilities and Head Office funds		**135,335,128**	136,882,336

The accompanying notes on pages 9 to 65 form an integral part of these financial statements.

Abdulfattah Sharaf
Chief Executive Officer

Ibrahim Hayatuddini
Chief Financial Officer

Statement of cash flows

for the year ended 31 December

	Notes	2022 AED000	2021[3] AED000
Cash flows from operating activities			
Profit before tax		**2,065,006**	1,655,561
Adjustments for:			
Net (gain)/loss from investing activities		**17,664**	(41,245)
Other non-cash items included in profit before tax	27	**443,785**	137,758
Change in operating assets and operating liabilities	27	**(13,952,583)**	7,112,304
Elimination of exchange differences[2]		**142,937**	70,079
Tax paid		**(111,725)**	(188,281)
Net cash generated from/(used in) operating activities		**(11,394,916)**	8,746,176
Cash flows from investing activities			
Purchase of financial investments		**(27,299,944)**	(52,250,776)
Proceeds from the sale and maturity of financial investments		**40,625,758**	50,480,197
Net cash flows from the purchase and sale of property, plant and equipment		**(38,645)**	(11,198)
Net investment in intangible assets		**(282,275)**	(213,600)
Net cash generated from/(used) in investing activities		**13,004,894**	(1,995,377)
Net increase in cash and cash equivalents		**1,609,978**	6,750,799
Cash and cash equivalents at 1 Jan		**28,253,879**	21,573,159
Exchange differences in respect of cash and cash equivalents		**(142,937)**	(70,079)
Cash and cash equivalents at 31 Dec[1]	27	**29,720,920**	28,253,879

1 *Cash and cash equivalents include mandatory deposits amounting to AED 8,410 million (2021: AED 1,903 million) at central bank which are not available for use by the Bank.*
2 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
3 *Prior year amounts have been reclassified to conform to the current year presentation.*

The accompanying notes on pages 9 to 65 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December

			Other reserves					
	Allocated Capital	Legal Reserve	Financial assets at FVOCI reserves	Cash flow hedging reserve	Actuarial gains/ (losses) reserve	Other reserves[1]	Unremitted profits	Total Head Office funds
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2022	**4,495,255**	**2,247,628**	**7,872**	**12,784**	**(171,078)**	**948,588**	**7,671,438**	**15,212,487**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**1,740,539**	**1,740,539**
Other comprehensive income/(expense) – net of tax	**—**	**—**	**(271,966)**	**(60,964)**	**(11,103)**	**25,711**	**—**	**(318,322)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**(271,966)**	**—**	**—**	**—**	**—**	**(271,966)**
– cash flow hedges	**—**	**—**	**—**	**(60,964)**	**—**	**—**	**—**	**(60,964)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**—**	**—**	**—**	**—**	**—**	**25,711**	**—**	**25,711**
– remeasurement of defined benefit asset/liability	**—**	**—**	**—**	**—**	**(11,103)**	**—**	**—**	**(11,103)**
Total comprehensive income for the year	**—**	**—**	**(271,966)**	**(60,964)**	**(11,103)**	**25,711**	**1,740,539**	**1,422,217**
Transfer to Impairment Reserve	**—**	**—**	**—**	**—**	**—**	**290,148**	**(290,148)**	**—**
Other movements	**—**	**—**	**—**	**—**	**—**	**(3,829)**	**4,307**	**478**
At 31 Dec 2022	**4,495,255**	**2,247,628**	**(264,094)**	**(48,180)**	**(182,181)**	**1,260,618**	**9,126,136**	**16,635,182**
At 1 Jan 2021	4,495,255	2,247,628	103,196	94,467	(74,284)	882,541	6,288,782	14,037,585
Profit for the year	—	—	—	—	—	—	1,441,440	1,441,440
Other comprehensive income/(expense) – net of tax	—	—	(95,324)	(81,683)	(96,794)	5,396	—	(268,405)
– debt instruments at fair value through other comprehensive income	—	—	(95,324)	—	—	—	—	(95,324)
– cash flow hedges	—	—	—	(81,683)	—	—	—	(81,683)
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	—	—	—	5,396	—	5,396
– remeasurement of defined benefit asset/liability	—	—	—	—	(96,794)	—	—	(96,794)
Total comprehensive income for the year	—	—	(95,324)	(81,683)	(96,794)	5,396	1,441,440	1,173,035
Transfer to Impairment Reserve	—	—	—	—	—	42,191	(42,191)	—
Other movements	—	—	—	—	—	18,460	(16,593)	1,867
At 31 Dec 2021	4,495,255	2,247,628	7,872	12,784	(171,078)	948,588	7,671,438	15,212,487

1 *Other reserves includes the General Impairment Reserve of AED 857 million (2021: AED 653 million) and the Specific Impairment Reserve of AED 348 million (2021: 263 million) as per the requirements of the Central Bank of the UAE ('CBUAE'). The impairment reserves were created in relation to the excess of CBUAE provision requirements over the IFRS 9 model ECLs. The reserves are appropriation of unremitted profits and is not available for distribution.*

The accompanying notes on pages 9 to 65 form an integral part of these financial statements.

Notes on the financial statements

1 Legal status and principal activities

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

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

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

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

Abu Dhabi	Bur Dubai	Dubai Festival City Mall
Jumeirah	Jebel Ali	Sharjah
Ras Al Khaimah	Fujairah	

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

Standards adopted during the year ended 31 December 2022

There were no new accounting standards or interpretations that had a significant effect on the Bank in 2022. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2022 that are applicable to the Bank. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2023 and 1 January 2024. The Bank expects they will have an insignificant effect, when adopted, on the financial statements of the Bank.

Major new IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2023. The Bank has assessed the impact of IFRS 17 and expects that the standard will have no significant effect, when applied, on the financial statements of the Bank.

(c) Going concern

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

(d) Foreign currencies

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

(e) Critical accounting estimates and judgements

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

(f) Segmental analysis

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

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

Products and services

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

- Wealth and Personal Banking ('WPB') provides a full range of retail banking and wealth products to customers from personal banking to ultra-high net worth individuals. Typically, customer offerings include retail banking products, such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. WPB also provides wealth management services, including investment products, global asset management services, investment management and private wealth solutions for customers with more sophisticated and international requirements.
- Commercial Banking (‘CMB’) offers a broad range of products and services to serve the needs of commercial customers, including small- and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards) and investments. CMB also offers customers access to products and services offered by other global businesses, such as Global Banking and Markets, which include foreign exchange products, raising capital on debt and equity markets and advisory services.
- Global Banking (‘GB’) provides tailored financial solutions to major government, corporate and institutional clients worldwide. The client-focused business line delivers a full range of banking capabilities including structured financing, advisory, capital markets, liquidity and cash management services.
- Markets and Securities Services (‘MSS’) enables our corporate and institutional clients to access financial markets and liquidity, unlock investment opportunities, manage risk and transact seamlessly. Bringing together financing solutions; sales, trading and distribution across multiple asset classes; research; clearing and settlement; global and direct custody; and asset servicing.
- Corporate Centre comprises central stewardship costs that support the Bank's businesses.

2.2 Summary of significant accounting policies

(a) Income and expenses

Operating income

Interest income and expense

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

Non-interest income and expense

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

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

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

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

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

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

- ‘Net income from financial instruments held for trading or managed on a fair value basis’: This element is comprised of the net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- ‘Changes in fair value of designated debt and related derivatives’: Interest on the external long-term debt and interest cash flows on related derivatives is presented in interest expense.
- ‘Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss’: This includes interest on instruments which fail the solely payments of principal and interest test.

(b) Valuation of financial instruments

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

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

Critical accounting estimates and judgements

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

(c) Financial instruments measured at amortised cost

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

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

Non-trading reverse repurchase, repurchase and similar agreements

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

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

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

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

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

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

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

Designated financial assets are recognised when the Bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis'except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

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

- Long-term debt issues.

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

(f) Derivatives

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

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

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

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

Derivatives that do not qualify for hedge accounting

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

(g) Impairment of amortised cost and FVOCI financial assets

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

Credit-impaired (stage 3)

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

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

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

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

Write-off

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

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when we modify the contractual terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition applying primary and secondary indicators. Mandatory and general offer loan modifications that are not borrower specific, for example market-wide customer relief programmes generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

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

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

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15 bps
2.1–3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination.

For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

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

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

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

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

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

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

Purchased or originated credit impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes new financial instruments recognised in most cases following the derecognition of forborne loans. The amount of change in lifetime ECL for a POCI loan is recognised in profit or loss until the POCI loan is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

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

In general, the Bank calculates ECL using three main components, a PD, a loss given default ('LGD') and the exposure at default (‘EAD’).

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

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

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

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle)	• Point in time (based on current conditions, adjusted to consider estimates of future conditions that will impact PD)
EAD	• Cannot be lower than current balance	• Expected EAD based on estimate of credit conversion factors (CCF) and drawn down factors (DDF) including the expected impact of future macro-economic conditions. • Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of LGD including the expected impact of future economic conditions such as changes in value of collateral) • Regulatory floors may apply to mitigate risk of underestimating • Discounted using the reasonable approximation of the original effective interest rate. • Only direct costs are included (partially as per data availability)
Other		• Discounted back from point of default to balance sheet date

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

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is considered if it is likely that the recovery of the outstanding amount will include realization of collateral based on its estimated fair value of collateral at the time of expected realization, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate.

Period over which ECL is measured

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

Forward-looking economic inputs

The Bank applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside, Downside scenarios and Additional Downside scenarios where Upside and Downside reflect deviations from the central view. The Upside, Downside and Additional Downside scenarios are constructed following a standard process supported by a scenario narrative reflecting the Bank's current top and emerging risks and in consultation with external and internal sources. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, and commercial property prices across all the countries in which the bank operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the probability weights which are reviewed on a quarterly basis and changed in line with the current and expected economic environment. The economic forecast for Central and Outer scenarios is updated on quarterly basis.

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

Critical accounting estimates and judgements

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

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk • Determining the lifetime and point of initial recognition of overdrafts and credit cards • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	• The section on page 41, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(h) Employee compensation and benefits

Share-based payments

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

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

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

Post-employment benefit plans

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

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

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

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

Critical accounting estimates and judgements

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

Judgements	Estimates
	• A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. • The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. • Key assumptions used in calculating the defined benefit pension obligation for the principal plan and the sensitivity of the calculation to different assumptions are described in Note 6.

(i) Tax

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

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

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

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

In assessing the probability and sufficiency of future taxable profit, we consider the availability of evidence to support the recognition of deferred tax assets taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable.

Critical accounting estimates and judgements

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

(j) Debt securities in issue

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

(k) Provisions, contingent liabilities and guarantees

Provisions

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

Critical accounting estimates and judgements

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

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations. • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Financial guarantee contracts

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

(l) Acceptances and endorsements

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

(m) Joint arrangements

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

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

(n) Impairment of non-financial assets

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

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

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

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

Critical accounting estimates and judgements

The review of the non-financial assets for impairment reflects management’s best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the Critical accounting estimates and judgements in Note 2.1(e). In 2022, there was no impairment of non-financial assets based on comparing the carrying amount of the Bank's CGUs with their recoverable amount.

3 Net fee income

	2022 AED000	2021 AED000
Credit facilities	**78,291**	99,272
Remittances	**108,838**	98,887
Cards	**483,766**	388,314
Global custody	**64,834**	49,105
Import/exports	**154,465**	149,174
Account services	**84,507**	60,490
Insurance agency	**33,535**	27,649
Corporate/project finance	**46,076**	64,224
Unit trust	**61,738**	70,894
Performance/tender bonds	**131,359**	136,311
Others[1]	**267,611**	284,361
Total Fee Income	**1,515,020**	1,428,681
Fee Expense	**(364,585)**	(275,596)
Net Fee Income	**1,150,435**	1,153,085

1 *Others include related party transaction fee of AED 128 million (2021: AED 178 million). Refer Note 32 for further details on Related Party Transactions.*

4 Changes in fair value of designated debt and related derivatives

	2022 AED000	2021 AED000
Net loss arising on changes in fair value	**(8,956)**	(12,296)
Year ended 31 Dec	**(8,956)**	(12,296)

5 Operating profit/(loss)

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

	2022 AED000	2021 AED000
Income		
Interest recognised on financial assets measured at amortised cost	**2,744,643**	1,797,356
– *of which: Interest recognised on impaired financial assets*	***21,270***	*17,374*
Interest recognised on financial assets measured at FVOCI	**265,467**	89,414
Fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**1,386,933**	1,250,413
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value	**(230,706)**	(67,412)
Fees payable on financial liabilities that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**(287,162)**	(221,204)
Restructuring provisions	**(56,543)**	(43,788)
Gains/(losses)		
Change in expected credit loss charges and other credit impairment charges	**3,908**	260,134
– loans and advances to banks and customers	**(133,770)**	259,644
– loans commitments and guarantees	**130,255**	(2,199)
– other financial assets	**6,870**	2,495
– debt instruments measured at fair value though other comprehensive income	**553**	194

6 Employee compensation and benefits

	2022 AED000	2021 AED000
Wages and salaries	**1,541,673**	1,481,064
Social security costs	**20,746**	18,237
Post-employment benefits	**69,456**	64,951
Year ended 31 Dec	**1,631,875**	1,564,252

Share-based payments

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

	2022	2021
	AED000	AED000
Restricted share awards	30,218	28,576
Savings-related and other share award option plans	33	44
Year ended 31 Dec	**30,251**	28,620

Defined benefit pension plans

Net liability under defined benefit pension plans[1,2]

	2022	2021
	AED000	AED000
At 1 Jan	**(579,684)**	(482,196)
Current service cost	(63,768)	(57,728)
Interest cost on the defined benefit liability	(5,697)	(6,695)
Re-measurement effects recognised in other comprehensive income – actuarial gains	(11,103)	(96,794)
– actuarial gains	(11,103)	(96,794)
Exchange differences and other movements	82	(2,692)
Benefits paid	70,872	66,421
At 31 Dec	**(589,298)**	(579,684)

1 *There were no plan assets under defined benefit pension plans as at 31 Dec 2022 (31 Dec 2021: nil).*
2 *These are payable to employees immediately after resignation.*

Post-employment defined benefit plans' principal actuarial financial assumptions

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

Key actuarial assumptions for the principal plan

	Discount rate	Rate of pay increase	Combined rate of resignation and employment termination
	%	%	%
United Arab Emirates			
At 31 Dec 2022	**3.53**	**5**	**10.80**
At 31 Dec 2021	1.38	3	8.90

The Bank determines discount rates to be applied to its obligations on the basis of projected long term interest rates applicable for the duration of the liabilities.

The effect of changes in key assumptions on the principal plan

	2022	2021
	AED000	AED000
Discount rate		
Change in scheme obligation at year end from a 25bps increase	(3,288)	(10,519)
Change in scheme obligation at year end from a 25bps decrease	14,307	9,098
Change in following year scheme cost from a 25bps increase	(152)	(826)
Change in following year scheme cost from a 25bps decrease	142	107
Rate of pay increase		
Change in scheme obligation at year end from a 25bps increase	14,495	16,720
Change in scheme obligation at year end from a 25bps decrease	(3,520)	(10,075)
Change in following year scheme cost from a 25bps increase	1,423	2,159
Change in following year scheme cost from a 25bps decrease	(1,390)	(1,905)

7 Auditor's remuneration

	2022	2021
	AED000	AED000
Audit fees	1,140	3,149
Year ended 31 Dec	**1,140**	3,149

Fees payable by the Bank

	2022 AED000	2021 AED000
Fees for HSBC Bank Middle East Limited - UAE Operations statutory audit[1]	**1,140**	3,149
– relating to current year	**1,102**	3,149
– relating to prior year	**38**	—
Fees for other services provided to the Bank	**1,741**	2,266
– audit-related assurance services[2]	**1,577**	1,792
– other assurance services	**164**	474
Year ended 31 Dec	**2,881**	5,415

1 *Fees payable to Grant Thornton (2021: PwC) for the statutory audit of the financial statements of the Bank.*
2 *Including services for assurance and other services that relate to statutory and regulatory filings, including interim reviews.*

8 Tax

Tax expense

	2022 AED000	2021 AED000
Current tax	**68,662**	136,316
– for this year	**123,858**	150,083
– adjustments in respect of prior years	**(55,196)**	(13,767)
Deferred tax	**255,805**	77,805
Year ended 31 Dec	**324,467**	214,121

Tax reconciliation

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

	2022 AED000	2022 %	2021 AED000	2021 %
Profit/(loss) before tax	**2,065,006**		1,655,561	
Tax expense				
Taxation at UAE corporate tax rate	**413,001**	**20.0**	331,112	20.0
Adjustment in respect of prior period liabilities	**(5,136)**	**(0.2)**	(13,766)	(0.8)
Non-taxable income and gains	**(99,301)**	**(4.8)**	(76,891)	(4.6)
Permanent disallowables	**2,699**	**0.1**	(15,977)	(1.0)
Local taxes and overseas withholding taxes	**13,204**	**0.6**	16,965	1.0
Other items	**—**	**—**	(27,322)	(1.7)
Overall tax expense	**324,467**	**15.7**	214,121	12.9

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

Movement of deferred tax assets

	Loan impairment allowances AED000	Others AED000	Total AED000
At 1 Jan 2022	**632,733**	**86,956**	**719,689**
Income statement	**(201,415)**	**(54,390)**	**(255,805)**
Other comprehensive income	**—**	**70,123**	**70,123**
At 31 Dec 2022	**431,318**	**102,689**	**534,007**
At 1 Jan 2021	694,750	102,744	797,494
Income statement	(62,017)	(15,788)	(77,805)
Other comprehensive income	—	—	—
At 31 Dec 2021	632,733	86,956	719,689

Unrecognised deferred tax

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was Nil (2021: Nil).

Other information

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (‘Corporate Tax Law’ or ‘the Law’) to enact a Federal corporate tax regime in the UAE. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods beginning on or after 1 June 2023. Generally, UAE businesses will be subject to a 9% corporate tax rate, while a rate of 0% will apply to taxable income not exceeding a threshold of AED 375,000 as prescribed by way of a Cabinet Decision issued in February 2023. However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, that are critical for entities to determine their tax status and the amount of tax due.

Therefore, the Bank has determined that the Law was not practically operational as at 31 December 2022, and therefore not been enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. The Bank shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine its tax status and the applicability of IAS 12 – Income Taxes. The Bank is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspectives.

9 Segment analysis

Profit/(loss) for the period

	2022					
	Wealth and Personal Banking	Commercial Banking	Global Banking	Markets and Securities Services	Corporate Centre	Total
Full year	AED000	AED000	AED000	AED000	AED000	AED000
Net interest income	1,119,415	681,946	634,099	203,265	(149,746)	2,488,979
Net fee income	399,279	324,089	299,971	131,049	(3,953)	1,150,435
Net income from financial instruments held for trading or managed on a fair value basis	142,196	110,957	(787)	682,391	123,472	1,058,229
Other income	19,799	20,384	(10,660)	(15,896)	207,162	220,789
Net operating income before change in expected credit losses and other credit impairment charges	1,680,689	1,137,376	922,623	1,000,809	176,935	4,918,432
Change in expected credit losses and other credit impairment charges	(36,711)	(48,547)	85,330	3,836	–	3,908
Net operating income	1,643,978	1,088,829	1,007,953	1,004,645	176,935	4,922,340
Total operating expenses	(1,103,077)	(555,385)	(496,712)	(348,366)	(353,794)	(2,857,334)
Profit/(loss) before tax	540,901	533,444	511,241	656,279	(176,859)	2,065,006

	2021					
Net interest income	733,901	409,153	479,502	151,633	5,131	1,779,320
Net fee income	361,053	325,118	333,330	134,015	(431)	1,153,085
Net income from financial instruments held for trading or managed on a fair value basis	138,258	88,141	827	563,193	(2,672)	787,747
Other income	48,753	60,395	27,974	7,251	175,769	320,142
Net operating income before loan impairment charges and other credit risk	1,281,965	882,807	841,633	856,092	177,797	4,040,294
Change in expected credit losses and other credit impairment charges	138,919	(167,196)	288,364	47	–	260,134
Net operating income	1,420,884	715,611	1,129,997	856,139	177,797	4,300,428
Total operating expenses	(1,018,138)	(587,548)	(470,118)	(299,759)	(269,304)	(2,644,867)
Profit/(loss) before tax	402,746	128,063	659,879	556,380	(91,507)	1,655,561

Statement of financial position

	2022					
	Wealth and Personal Banking	Commercial Banking	Global Banking	Markets and Securities Services	Corporate Centre	Total
	AED000	AED000	AED000	AED000	AED000	AED000
Loans and advances to customers	12,284,430	17,075,512	20,651,868	3,683	–	50,015,493
Total assets	36,455,700	25,768,349	33,110,164	34,721,807	5,279,108	135,335,128
Customer accounts	45,296,966	16,252,175	22,274,464	2,212,928	–	86,036,533
Total liabilities	51,805,766	20,282,514	25,107,103	18,190,199	3,314,364	118,699,946

	2021					
Loans and advances to customers	11,181,511	16,171,147	23,603,161	12	1,331	50,957,162
Total assets	39,698,149	27,111,184	36,297,287	28,534,802	5,240,914	136,882,336
Customer accounts	41,047,194	15,317,891	20,619,956	837,067	499	77,822,607
Total liabilities	52,817,565	21,277,678	25,108,858	17,167,459	5,298,289	121,669,849

10 Trading assets

	2022	2021
	AED000	AED000
Trading assets:		
– not subject to repledge or resale by counterparties	6,559,399	4,063,062
At 31 Dec	6,559,399	4,063,062
Debt securities	481,047	849,868
Treasury and other eligible bills	174,682	582,713
Trading securities	655,729	1,432,581
Trading reverse repurchase agreements	5,857,766	2,575,967
Loans and advances to customers	45,904	54,514
At 31 Dec	6,559,399	4,063,062

11 Fair values of financial instruments carried at fair value

Control framework

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

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

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

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

Financial liabilities measured at fair value

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

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

Gains and losses arising from changes in the credit spread of liabilities issued by the Bank is recorded in other comprehensive income, the residual risks (rates, volatility, time effects) are fair valued through profits and loss.

Fair value hierarchy

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

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

Financial instruments carried at fair value and bases of valuation

	2022				2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	AED000	**AED000**	**AED000**	**AED000**	AED000	AED000	AED000	AED000
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**461,024**	**5,011,359**	**1,087,016**	**6,559,399**	1,297,252	1,487,936	1,277,874	4,063,062
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**73,429**	**–**	**–**	**73,429**	–	–	–	–
Derivatives	**–**	**6,895,329**	**4,525**	**6,899,854**	–	3,676,062	4,238	3,680,300
Financial investments	**13,918,765**	**532,175**	**–**	**14,450,940**	30,085,268	3,856,013	–	33,941,281
Liabilities								
Trading liabilities	**226,246**	**1,125,465**	**–**	**1,351,711**	660,809	1,609,500	–	2,270,309
Financial liabilities designated at fair value	**–**	**3,986,253**	**–**	**3,986,253**	–	4,275,274	–	4,275,274
Derivatives	**–**	**6,386,370**	**30,357**	**6,416,727**	–	3,438,984	11,876	3,450,860

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

During 2022, there was a transfer of AED 86 million (2021: AED nil) from Level 1 to Level 2 financial Investments. The transfers from Level 2 to Level 3 during the year are shown in 'Movement in Level 3 financial instruments' on page 24.

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

Funding fair value adjustment

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

Model limitation

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

Inception profit (Day 1 P&L reserves)

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

Fair value valuation bases

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

	Assets			Liabilities	
	Trading Assets	Derivatives	Total	Derivatives	Total
	AED000	AED000	AED000	AED000	AED000
Other portfolios	**1,087,016**	**–**	**1,087,016**	**–**	**–**
Other Derivatives	**–**	**4,525**	**4,525**	**30,357**	**30,357**
At 31 Dec 2022	**1,087,016**	**4,525**	**1,091,541**	**30,357**	**30,357**
Other portfolios	1,277,874	–	1,277,874	–	–
Other Derivatives	–	4,238	4,238	11,876	11,876
At 31 Dec 2021	1,277,874	4,238	1,282,112	11,876	11,876

Derivatives

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

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

Movement in Level 3 financial instruments

	Assets		Liabilities
	Trading Assets	Derivatives	Derivatives
	AED000	AED000	AED000
At 1 Jan 2022	**1,277,874**	**4,238**	**11,876**
Total gains/(losses) recognised in profit or loss	**(11,403)**	**2,508**	**7,767**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	**(11,403)**	**2,508**	**7,767**
Purchases	**106,315**	**4,550**	**16,142**
Settlements	**(285,770)**	**(5,384)**	**—**
Transfers out	**—**	**(1,387)**	**(5,428)**
Transfers in	**—**	**—**	**—**
At 31 Dec 2022	**1,087,016**	**4,525**	**30,357**
At 1 Jan 2021	716,447	9,466	9,993
Total losses recognised in profit or loss	18,528	(2,013)	(2,865)
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	18,528	(2,013)	(2,865)
Purchases	775,592	—	7,951
Settlements	(287,207)	(3,215)	(3,203)
Transfers out	—	—	—
Transfers in	54,514	—	—
At 31 Dec 2021	1,277,874	4,238	11,876

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 Dec 2022		At 31 Dec 2021	
	Reflected in profit or loss		Reflected in profit or loss	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	AED000	AED000	AED000	AED000
Derivatives and trading assets[1]	**77**	**(6,460)**	—	(99)
Total	**77**	**(6,460)**	—	(99)

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

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	At 31 Dec 2022		At 31 Dec 2021	
	Reflected in profit or loss		Reflected in profit or loss	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	AED000	AED000	AED000	AED000
Other derivatives	**—**	**(84)**	—	(99)
Other portfolios	**77**	**(6,376)**	—	—
Total	**77**	**(6,460)**	—	(99)

12 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	AED000	AED000	AED000	AED000	AED000
At 31 Dec 2022					
Assets					
Loans and advances to banks	**16,169,142**	**–**	**16,176,466**	**–**	**16,176,466**
Loans and advances to customers	**50,015,493**	**–**	**–**	**48,910,901**	**48,910,901**
Reverse repurchase agreements – non-trading	**22,064,566**	**–**	**22,121,985**	**–**	**22,121,985**
Financial investments	**5,226,396**	**5,173,728**	**–**	**–**	**5,173,728**
Liabilities					
Deposits by banks	**11,712,584**	**–**	**11,763,884**	**–**	**11,763,884**
Customer accounts	**86,036,533**	**–**	**85,776,186**	**–**	**85,776,186**
Repurchase agreements – non-trading	**3,429,224**	**–**	**3,429,088**	**–**	**3,429,088**
Debt securities in issue	**159,647**	**–**	**160,130**	**–**	**160,130**
At 31 Dec 2021					
Assets					
Loans and advances to banks	19,392,939	–	19,447,873	–	19,447,873
Loans and advances to customers	50,957,162	–	–	50,945,604	50,945,604
Reverse repurchase agreements – non-trading	18,000,696	–	17,992,978	–	17,992,978
Financial investments	–	–	–	–	–
Liabilities					
Deposits by banks	18,344,639	–	18,382,581	–	18,382,581
Customer accounts	77,822,607	–	77,830,906	–	77,830,906
Repurchase agreements – non-trading	8,692,427	–	8,689,975	–	8,689,975
Debt securities in issue	309,539	–	309,539	–	309,539

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

Valuation

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

Loans and advances to banks and customers

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

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

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

Financial investments

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

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

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

Repurchase and reverse repurchase agreements – non-trading

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

13 Derivatives

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

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Foreign exchange	**449,110,183**	**3,305,698**	**3,284,465**	**6,977**	**3,291,442**	**3,255,616**	**—**	**3,255,616**
Interest rate	**138,717,291**	**11,739,911**	**3,224,047**	**383,503**	**3,607,550**	**3,114,819**	**45,440**	**3,160,259**
Credit	**123,029**	**—**	**862**	**—**	**862**	**852**	**—**	**852**
Commodity and other	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2022	**587,950,503**	**15,045,609**	**6,509,374**	**390,480**	**6,899,854**	**6,371,287**	**45,440**	**6,416,727**
Foreign exchange	457,072,393	2,986,149	1,598,145	8,330	1,606,475	1,501,486	335	1,501,821
Interest rate	167,753,572	7,122,640	2,006,761	64,632	2,071,393	1,891,287	52,409	1,943,696
Credit	490,279	—	1,051	—	1,051	3,963	—	3,963
Commodity and other	467,901	—	1,381	—	1,381	1,380	—	1,380
At 31 Dec 2021	625,784,145	10,108,789	3,607,338	72,962	3,680,300	3,398,116	52,744	3,450,860

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

Use of derivatives

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

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

Trading derivatives

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

Hedge accounting derivatives

Hedged risk components

The Bank designates a portion of cash flows of a financial instrument or a group of financial instruments for a specific interest rate or foreign currency risk component in a fair value or cash flow hedge. The designated risks and portions are either contractually specified or otherwise separately identifiable components of the financial instrument that are reliably measureable. Risk-free or benchmark interest rates generally are regarded as being both separately identifiable and reliably measureable, except for the IBOR Reform transition where the Bank designates Alternative Benchmark Rates as the hedged risk which may not have been separately identifiable upon initial designation, provided the Bank reasonably expects it will meet the requirement within 24 months from the first designation date. The designated risk component accounts for a significant portion of the overall changes in fair value or cash flows of the hedged items.

Fair value hedges

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

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]
Hedged risk	AED000	AED000	AED000		AED000
Interest rate	**9,386,911**	**378,554**	**1,381**	**Derivatives**	**356,138**
At 31 Dec 2022	**9,386,911**	**378,554**	**1,381**		**356,138**
Interest rate	5,738,390	34,677	52,409	Derivatives	171,327
At 31 Dec 2021	5,738,390	34,677	52,409		171,327

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

Hedged item by hedged risk

Hedged risk	Hedged Item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
	AED000	AED000	AED000	AED000		AED000	AED000	
Interest rate	**8,629,826**	**—**	**350,834**	**—**	**Financial Investments**	**(344,785)**		
Interest rate	**1,145,624**	**—**	**66,265**	**—**	**Loans and advances to Customers**	**(16,084)**	**2,979**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**—**	**—**	**—**	**—**	**Debt securities in issue**	**1,892**		
Interest rate	**—**	**158,123**	**—**	**992**	**Deposits by banks**	**5,825**		
At 31 Dec 2022	**9,775,450**	**158,123**	**417,099**	**992**		**(353,152)**	**2,979**	
Interest rate	5,452,731	—	4,641	—	Financial Investments	(174,222)		
Interest rate	1,283,718	—	30,187	—	Loans and advances to Customers	(7,370)	316	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	—	150,217	—	1,892	Debt securities in issue	5,253		
Interest rate	—	259,910	—	4,833	Deposits by banks	5,325		
At 31 Dec 2021	6,736,449	410,127	34,828	6,725		(171,014)	316	

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

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

Cash flow hedges

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

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

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

Hedging instrument by hedged risk

Hedged Risk	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
	AED000	AED000	AED000		AED000	AED000	AED000	
Foreign currency	**3,305,698**	**6,977**	**—**	**Derivatives**	**(1,846)**	**(2,701)**	**855**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**2,353,000**	**4,949**	**44,059**	**Derivatives**	**(69,666)**	**(69,666)**	**—**	
At 31 Dec 2022	**5,658,698**	**11,926**	**44,059**		**(71,512)**	**(72,367)**	**855**	
Foreign currency	2,986,149	8,330	335	Derivatives	217	217	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	1,384,250	29,955	—	Derivatives	(92,693)	(92,693)	—	
At 31 Dec 2021	4,370,399	38,285	335		(92,476)	(92,476)	—	

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

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

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

The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'. The notional value of the derivatives impacted by the Ibor reform, including those designated in hedge accounting relationships, is disclosed on page 38 in the section 'Financial instruments impacted by the Ibor reform'.

There is no significant judgement applied for these benchmarks to determine whether and when the transition uncertainty has been resolved.

The most significant Ibor benchmark in which the Bank continues to have hedging instruments is US dollar Libor. It is expected that the transition out of US dollar Libor hedging derivatives will be largely completed by 30 June 2023. These transitions do not necessitate new approaches compared with any of the mechanisms used so far for transition and it will not be necessary to change the transition risk management strategy.

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

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

Hedging Instrument impacted by Ibor Reform

	Hedging instrument				
	Impacted by Ibor Reform				
	USD	Other	Total	Not Impacted by Ibor Reform	Notional Amount[1]
	AED000	AED000	AED000	AED000	AED000
Fair Value Hedges	**1,428,739**	**—**	**1,428,739**	**7,958,172**	**9,386,911**
Cash Flow Hedges	**—**	**2,353,000**	**2,353,000**	**3,305,698**	**5,658,698**
At 31 Dec 2022	**1,428,739**	**2,353,000**	**3,781,739**	**11,263,870**	**15,045,609**
Fair Value Hedges	4,398,171	—	4,398,171	1,342,199	5,740,370
Cash Flow Hedges	367,305	1,017,000	1,384,305	2,986,149	4,370,454
At 31 Dec 2021	4,765,476	1,017,000	5,782,476	4,328,348	10,110,824

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

14 Financial investments

Carrying amount of financial investments

	2022	2021
	AED000	AED000
Financial investment measured at fair value through other comprehensive income	**14,450,940**	33,941,281
Treasury and other eligible bills	**4,673,808**	22,599,926
Debt securities	**9,777,132**	11,341,355
Debt instruments measured at amortised cost	**5,226,396**	—
Treasury and other eligible bills	**2,314,973**	—
Debt securities	**2,911,423**	—
At 31 Dec	**19,677,336**	33,941,281

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

Assets charged as security for liabilities

The fair value of assets pledged as collateral but that do not qualify for derecognition is AED 2,195 million (2021: AED 4,955 million). These transactions are conducted under terms that are usual and customary to repurchase agreements.

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default is AED 30,837 million (2021: AED 23,055 million). The fair value of any such collateral sold or repledged is AED 2,303 million (2021: AED 5,329 million). The Bank is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

16 Joint arrangement

Joint arrangement of the Bank

	At 31 Dec 2022			
	Country of incorporation	**Principal activity**	**The Bank's interest in equity capital**	**Issued equity capital**
HSBC Middle East Leasing Partnership – (Joint operation)	**Dubai, UAE**	**Leasing**	**15.00%**	**US$371 million fully paid**

The results of the joint arrangement have been included on proportionate basis.

During the year, there has been a reduction in issued equity capital from US$621 million to US$371 million.

17 Prepayments, accrued income and other assets

	2022	2021
	AED000	AED000
Prepayments and accrued income	**1,119,420**	723,547
Endorsements and acceptances	**866,342**	994,487
Other accounts	**528,490**	424,578
Property, plant and equipment[1] and right of use assets	**888,190**	909,529
At 31 Dec	**3,402,442**	3,052,141

1 As at 31 December 2022, net book value of HSBC Tower was AED 819 million (2021: AED 841 million) and depreciation charged during the year was AED 33 million (2021: AED 33 million).

18 Intangible assets

Intangible assets

Included within intangible assets is internally generated software with a net carrying value of AED 631 million (2021: AED 468 million).

During the year, capitalisation of internally generated software was AED 282 million (2021: AED 213 million), amortisation was AED 117 million (2021: AED 76 million) and impairment was AED 1 million (2021: AED 7 million).

19 Customer accounts

	2022	2021
	AED000	AED000
Current account	**62,724,310**	58,260,470
Saving account	**11,642,109**	11,435,796
Fixed deposits	**11,667,828**	8,125,822
Others	**2,286**	519
At 31 Dec	**86,036,533**	77,822,607

20 Trading liabilities

	2022	2021
	AED000	AED000
Deposits by banks	**6,448**	–
Repurchase agreements	**1,049,244**	1,608,368
Net short positions in securities	**296,019**	661,941
At 31 Dec	**1,351,711**	2,270,309

21 Financial liabilities designated at fair value

	2022	2021
	AED000	AED000
Deposits by banks and customer accounts	**2,311,599**	1,797,471
Debt securities in issue (Note 22)	**1,674,654**	2,477,803
At 31 Dec	**3,986,253**	4,275,274

At 31 December 2022, the accumulated change in fair value attributable to changes in credit risk was a loss of AED 7 million (2021: AED 32 million loss). As at 31 December 2022, the difference between the carrying amount and the amount contractually required to be paid at maturity was AED 26 million (2021: AED 61 million).

22 Debt securities in issue

	2022		2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	AED000	**AED000**	AED000	AED000
Medium-term notes	**1,834,301**	**1,834,301**	2,787,342	2,787,342
Included within:				
– financial liabilities designated at fair value (Note 21)	**(1,674,654)**	**(1,674,654)**	(2,477,803)	(2,477,803)
At 31 Dec	**159,647**	**159,647**	309,539	309,539

Movement in debt securities in issue

	2022	2021
	AED000	AED000
Balance as at 1 January	**309,539**	596,617
Repayments	**(149,892)**	(287,078)
At 31 December	**159,647**	309,539

23 Accruals, deferred income and other liabilities

	2022	2021
	AED000	AED000
Accruals and deferred income	**789,546**	745,266
Share-based payments liability to HSBC Holdings plc	**36,371**	27,379
Endorsements and acceptances	**867,569**	1,002,837
Employee benefit liabilities (Note 6)	**589,298**	579,684
Margin deposits	**838,405**	860,556
Transitory accounts	**675,096**	34,629
Other liabilities	**943,545**	883,427
At 31 Dec	**4,739,830**	4,133,778

24 Provisions

	Restructuring costs	**Contractual commitments**	**Legal proceedings and regulatory matters**	**Other provisions**	**Total**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**
At 1 Jan 2022	**15,062**	**224,938**	**1,894**	**17,885**	**259,779**
Additions	**56,543**	**—**	**816**	**9,864**	**67,223**
Amounts utilised	**(24,738)**	**—**	**(87)**	**(1,043)**	**(25,868)**
Unused amounts reversed	**(12,949)**	**—**	**(183)**	**(1,920)**	**(15,052)**
Net change in expected credit loss provision	**—**	**(130,255)**	**—**	**—**	**(130,255)**
Exchange and other movements	**—**	**—**	**(1,801)**	**1,726**	**(75)**
At 31 Dec 2022	**33,918**	**94,683**	**639**	**26,512**	**155,752**
At 1 Jan 2021	27,476	227,137	343	12,585	267,541
Additions	43,788	—	2,023	6,129	51,940
Amounts utilised	(40,780)	—	(237)	—	(41,017)
Unused amounts reversed	(15,422)	—	(2,181)	(829)	(18,432)
Net change in expected credit loss provision	—	(2,199)	—	—	(2,199)
Exchange and other movements	—	—	1,946	—	1,946
At 31 Dec 2021	15,062	224,938	1,894	17,885	259,779

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

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

- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period, which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due after 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due after 5 years' time bucket.
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets and liabilities

	At 31 Dec 2022				
	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	AED000	AED000	AED000	AED000	AED000
Financial assets					
Trading assets	**2,148,460**	**3,704,570**	**706,369**	**—**	**6,559,399**
Derivatives	**6,516,250**	**3,429**	**309,234**	**70,941**	**6,899,854**
Loans and advances to banks	**13,677,494**	**1,306,144**	**1,185,504**	**—**	**16,169,142**
Loans and advances to customers	**18,372,221**	**5,394,202**	**18,136,027**	**8,113,043**	**50,015,493**
Reverse repurchase agreements – non-trading	**16,687,219**	**1,029,022**	**4,348,325**	**—**	**22,064,566**
Financial investments	**6,189,557**	**2,301,723**	**10,552,281**	**633,775**	**19,677,336**
Other financial assets	**2,354,812**	**75,598**	**2,555**	**—**	**2,432,965**
Total	**65,946,013**	**13,814,688**	**35,240,295**	**8,817,759**	**123,818,755**
Non-Financial assets	**—**	**—**	**—**	**2,134,092**	**2,134,092**
Financial liabilities					
Deposits by banks	**8,823,571**	**1,089,488**	**1,799,525**	**—**	**11,712,584**
Customer accounts	**81,115,338**	**4,771,929**	**149,266**	**—**	**86,036,533**
Repurchase agreements – non-trading	**2,286,205**	**—**	**1,143,019**	**—**	**3,429,224**
Trading liabilities	**302,467**	**—**	**1,049,244**	**—**	**1,351,711**
Financial liabilities designated at fair value	**2,142,664**	**353,435**	**1,490,154**	**—**	**3,986,253**
Derivatives	**6,371,315**	**1,353**	**44,059**	**—**	**6,416,727**
Debt securities in issue	**—**	**159,647**	**—**	**—**	**159,647**
Other financial liabilities	**3,930,507**	**86,657**	**39,281**	**7,372**	**4,063,817**
Total	**104,972,067**	**6,462,509**	**5,714,548**	**7,372**	**117,156,496**
Non-Financial liabilities	**—**	**—**	**—**	**954,554**	**954,554**
Loan and other credit-related commitments	**45,157,283**	**—**	**—**	**—**	**45,157,283**
Financial guarantees and similar contracts	**33,851,506**	**—**	**—**	**—**	**33,851,506**

	At 31 Dec 2021				
Financial assets					
Trading assets	2,627,086	1,009,841	426,135	—	4,063,062
Derivatives	3,614,777	14,808	47,914	2,801	3,680,300
Loans and advances to banks	17,457,920	1,783,403	151,616	—	19,392,939
Loans and advances to customers	14,780,294	6,114,348	21,678,811	8,383,709	50,957,162
Reverse repurchase agreements – non-trading	13,550,681	949,455	3,500,560	—	18,000,696
Financial investments	15,207,102	9,883,163	7,971,809	879,207	33,941,281
Other financial assets	1,833,654	199,772	7,589	—	2,041,015
Total	69,071,514	19,954,790	33,784,434	9,265,717	132,076,455
Non-Financial assets	—	—	—	2,198,399	2,198,399
Financial liabilities					
Deposits by banks	13,079,518	4,181,732	1,083,389	—	18,344,639
Customer accounts	75,578,610	2,118,580	125,417	—	77,822,607
Repurchase agreements – non-trading	7,453,604	415,966	822,857	—	8,692,427
Trading liabilities	1,295,309	—	975,000	—	2,270,309
Financial liabilities designated at fair value	268,020	1,614,843	2,392,411	—	4,275,274
Derivatives	3,409,540	13,687	27,633	—	3,450,860
Debt securities in issue	—	150,217	159,322	—	309,539
Other financial liabilities	3,225,332	210,945	44,940	10,861	3,492,078
Total	104,309,933	8,705,970	5,630,969	10,861	118,657,733
Non-Financial liabilities	—	—	—	1,062,621	1,062,621
Loan and other credit-related commitments	45,175,242	—	—	—	45,175,242
Financial guarantees and similar contracts	33,478,161	—	—	—	33,478,161

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

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years
	AED000	AED000	AED000	AED000	AED000
Deposits by banks	**5,151,071**	**3,674,742**	**1,096,190**	**1,817,365**	**—**
Customer accounts	**78,518,019**	**2,612,107**	**4,790,791**	**150,536**	**—**
Repurchase agreements – non-trading	**2,199,543**	**86,889**	**—**	**1,143,019**	**—**
Trading liabilities	**1,351,711**	**—**	**—**	**—**	**—**
Financial liabilities designated at fair value	**1,128,888**	**1,020,636**	**360,502**	**1,502,605**	**—**
Derivatives	**6,371,287**	**—**	**1,353**	**44,087**	**—**
Debt securities in issue	**—**	**1,223**	**160,870**	**—**	**—**
Other financial liabilities	**3,271,959**	**990,511**	**87,491**	**42,185**	**8,160**
Total	**97,992,478**	**8,386,108**	**6,497,197**	**4,699,797**	**8,160**
Loan and other credit-related commitments	**45,157,283**	**—**	**—**	**—**	**—**
Financial guarantees and similar contracts	**33,851,506**	**—**	**—**	**—**	**—**
At 31 Dec 2022	**177,001,267**	**8,386,108**	**6,497,197**	**4,699,797**	**8,160**
Deposits by banks	13,079,520	4	4,181,737	1,083,388	—
Customer accounts	73,092,013	2,488,249	2,120,339	125,755	—
Repurchase agreements – non-trading	7,041,591	412,282	415,966	822,857	—
Trading liabilities	2,270,309	—	—	—	
Financial liabilities designated at fair value	9,859	269,076	1,640,479	2,416,707	—
Derivatives	3,402,820	6,719	13,687	27,633	—
Debt securities in issue	—	1,929	155,068	163,292	—
Other financial liabilities	3,974,670	994,581	212,372	47,881	12,000
Total	102,870,782	4,172,840	8,739,648	4,687,513	12,000
Loan and other credit-related commitments	45,175,242	—	—	—	—
Financial guarantees and similar contracts	33,478,161	—	—	—	—
At 31 Dec 2021	181,524,185	4,172,840	8,739,648	4,687,513	12,000

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

Further discussion of the Bank's liquidity and funding management can be found in Note 28 'Risk management'.

26 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

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

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

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

	Amounts subject to enforceable netting arrangements							
				Amounts not set off in the balance sheet				
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments and Non-cash collateral[2]	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements	Total
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Financial assets								
Derivatives (Note 13)	**6,333,234**	**–**	**6,333,234**	**(4,628,378)**	**(931,820)**	**773,036**	**566,620**	**6,899,854**
Reverse repos, securities borrowing and similar agreements classified as:	**17,513,828**	**–**	**17,513,828**	**(17,513,828)**	**–**	**–**	**4,550,738**	**22,064,566**
– non-trading assets	**17,513,828**	**–**	**17,513,828**	**(17,513,828)**	**–**	**–**	**4,550,738**	**22,064,566**
Loans and advances to customers excluding reverse repos at amortised cost[1]	**975,798**	**–**	**975,798**	**–**	**(380,931)**	**594,867**	**–**	**975,798**
At 31 Dec 2022	**24,822,860**	**–**	**24,822,860**	**(22,142,206)**	**(1,312,751)**	**1,367,903**	**5,117,358**	**29,940,218**
Derivatives (Note 13)	3,007,043	–	3,007,043	(3,007,043)	–	–	673,257	3,680,300
Reverse repos, securities borrowing and similar agreements classified as:	15,717,521	–	15,717,521	(15,717,521)	–	–	2,283,175	18,000,696
– non-trading assets	15,717,521	–	15,717,521	(15,717,521)	–	–	2,283,175	18,000,696
Loans and advances to customers excluding reverse repos at amortised cost[1]	1,180,004	–	1,180,004	–	(480,104)	699,900	–	1,180,004
At 31 Dec 2021	19,904,568	–	19,904,568	(18,724,564)	(480,104)	699,900	–	19,904,568
Financial liabilities								
Derivatives (Note 13)	**4,683,569**	**–**	**4,683,569**	**(4,628,378)**	**(7,286)**	**47,905**	**1,733,158**	**6,416,727**
Repurchase agreements – non trading	**3,429,224**	**–**	**3,429,224**	**(3,429,224)**	**–**	**–**	**–**	**3,429,224**
At 31 Dec 2022	**8,112,793**	**–**	**8,112,793**	**(8,057,602)**	**(7,286)**	**47,905**	**1,733,158**	**9,845,951**
Derivatives (Note 13)	3,007,043	–	3,007,043	(2,978,379)	–	28,664	443,817	3,450,860
Repurchase agreements – non trading	8,692,427	–	8,692,427	(8,692,427)	–	–	–	8,692,427
At 31 Dec 2021	11,699,470	–	11,699,470	(11,670,806)	–	28,664	–	11,699,470

1 At 31 December 2022, the total amount of 'Loans and advances to customers' was AED 50,015 million (2021: AED 50,957 million), of which AED 976 million (2021: AED 1,180 million) was subject to offsetting.

2 All financial instruments (whether recognised on our balance sheet or as non-cash collateral received or pledged) are presented within 'financial instruments, including non-cash collateral', as balance sheet classification has no effect on the rights of set-off associated with financial instruments. Comparative data have been re-presented accordingly.

27 Notes on the statement of cash flows

Non-cash items included in profit before tax

	2022	2021[1]
	AED000	AED000
Depreciation, amortisation and impairment	208,201	181,301
Share-based payment expense	30,251	28,620
Change in expected credit losses and other credit impairment charges	73,764	(174,255)
Provisions including pensions	121,636	97,931
Other non-cash items included in profit before tax	9,933	4,161
Total	**443,785**	137,758

Change in operating assets and liabilities

	2022	2021
	AED000	AED000
Change in other assets	(530,728)	284,779
Change in net trading securities and net derivatives	(3,740,134)	(374,517)
Change in loans and advances to banks and customers	(1,531,896)	1,621,061
Change in reverse repurchase agreements – non-trading	(4,466,783)	(4,413,166)
Changes in financial assets designated at fair value	(73,429)	—
Change in other liabilities	484,922	(122,273)
Change in deposits by banks and customer accounts	1,581,871	5,705,611
Change in debt securities in issue	(149,892)	(287,078)
Change in financial liabilities designated at fair value	(263,311)	(2,134,183)
Change in repurchase agreements – non-trading	(5,263,203)	6,832,070
Total	**(13,952,583)**	7,112,304

Cash and cash equivalents

	2022	2021
	AED000	AED000
Cash and balances at central bank	9,185,600	2,479,265
Items in the course of collection from other banks	123,252	128,217
Loans and advances to banks of one month or less	11,310,264	16,784,960
Reverse repurchase agreement with banks of one month or less	8,419,484	8,822,398
Net settlement accounts	167,006	252,015
Treasury bills, other bills and certificates of deposit less than three months	1,104,210	1,736,519
Less: items in the course of transmission to other banks	(588,896)	(1,949,495)
Total cash and cash equivalents	**29,720,920**	28,253,879

1 *Prior year amounts have been reclassified to conform to the current year presentation.*

28 Risk management

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks that the Bank is exposed to are retail and wholesale credit risk (including cross-border country risk), market risk (predominantly foreign exchange and interest rate risks), liquidity, funding risk and strategic risk (including reputational risk and pension risks). The Bank is also exposed to non-financial risk in various forms (including Resilience risk, Financial Crime and Fraud Risk, People risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting, Tax risks and Model Risks). There is a growing focus on the management of Climate Risk and its embedment in to how we do our business, conduct our operation and deal with all our stakeholders.

The implementation of our business strategy, which includes transformation programme, remains a key focus. As we implement change initiatives, we actively manage the execution risks. We aim to use a comprehensive risk management approach across the organisation 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 summarises key aspects of the risk management framework, including governance, structure, our risk management tools and our culture, which together help align employee behaviour with our risk appetite.

Key components of our risk management framework

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

Risk culture

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

Risk governance and ownership

An established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at the Bank and global business level. The risk management framework applies to all the types of risk we face, ensures we define, identify and assess and have sufficient controls in place to manage, aggregate, report and govern the risk consistently across the Bank.This will help to grow our business safely within our appetite, deliver fair outcomes for customers and maintain the orderly and transparent operation of financial markets.

The HBME Board has overall accountability for risk across the Bank, approves the risk appetite, sets the 'tone from the top' regarding the strong culture expected across our organisation 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') 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. The membership of the Executive Committee ensures that the committee oversees risk management matters across the three lines of defence.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All the Bank's people have a role to play in identifying and managing risk within the scope of their roles. These roles are defined using the three lines of defence model. The first line of defence has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. The second line of defence review and challenge the first line of defence activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The third line of defence is internal audit.

We define financial risk as the risk of a financial loss as a result of business activities. We actively take these risks to maximise 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. 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 its governance and risk appetite, and provides a single view of the non-financial risk that matters the most and the associated controls.

It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the Operational and Resilience Risk function.

Risk appetite

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

a. an alignment with our strategy, purpose, values, customer needs and HSBC Group Risk Appetite;
b. trends highlighted in other risk reports;
c. communication with risk stewards on the developing risk landscape;
d. strength of our capital, liquidity and balance sheet;
e. compliance with applicable laws and regulations;
f. effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
g. functionality, capacity and resilience of available systems to manage risk; and
h. the level of available staff with the required competencies to manage risks.

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

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

Top and emerging risks

The Bank uses top and emerging risks process to provide a forward-looking view of issues with the potential to threaten the execution of the Bank's strategy or operations over the medium to long term. The Bank proactively assess the internal and external risk environment and the top and emerging risks as necessary.

The Bank's current top and emerging risks are described on page 66.

Stress testing and recovery planning

We operate a wide-ranging stress testing programme that is a key part of our risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on the Bank, and provides confidence to regulators on the Bank's financial stability.

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

Internal stress tests

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

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

In addition to HSBC Group wide stress testing scenarios, the Bank conducts regular macroeconomic and event-driven scenario and analyses specific to its region. We also participate, as required, in the regulatory stress testing programmes.

We also conduct 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 Bank'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 is also committed to further developing its recovery and resolution capabilities in line with applicable local regulatory resolvability assessment framework requirements.

The Bank conducted its first recovery plan fire drill in 2022 to test escalation procedures and governance arrangements, examine and identify any impediments in implementing multiple management actions and to explore management's decision-making process when considering the implications of a severe stress scenario. Management demonstrated the ability to execute the escalation process and collectively agree a recovery strategy in accordance with the Bank's recovery plan framework.

Key developments in 2022

We actively managed the risks related to the Russia-Ukraine war and broader macroeconomic and geopolitical uncertainties, as well as the continued risks resulting from the Covid-19 pandemic and other key risks described in this section. In addition, we enhanced our risk management in the following areas:

- We continued to develop our approach to emerging risk identification and management.
- We enhanced our enterprise risk reporting processes to place a greater focus on our emerging risks, including capturing the materiality, oversight and individual monitoring of these risks.

- We have further strengthened our third-party risk policy and processes to improve control and oversight of our material third parties that are key to maintaining our operational resilience, and to meet new and evolving regulatory requirements.
- We made progress with our comprehensive regulatory reporting programme to strengthen our global processes, improve consistency, and enhance controls.
- We enhanced, and continued to embed, the governance and oversight around model adjustments and related processes for IFRS 9 models and Sarbanes-Oxley controls.
- Our climate risk programme continues to shape our approach to climate risk across four key pillars: governance and risk appetite; risk management; stress testing; and disclosures.
- We continued to improve the effectiveness of our financial crime controls. We are refreshing our financial crime policies ensuring they remain up-to-date and address changing and emerging risks. We continue to monitor regulatory changes.

Areas of special interest

Covid-19

Impact of Covid-19 has considerably reduced following successful vaccine rollouts and considering reduced appetite for broad lockdowns. Globally, countries continue to differ to a degree in their approach although China, being one of the major Oil consumer, has recently reversed restrictions on activity and mobility, presenting potential upside to the global economic outlook as economic activity, travel and tourism recovers. This could drive global growth, though this may also lead to renewed inflationary pressures as demand for commodities and other goods rises. In the short-term, however, a significant escalation in infections poses a downside risk to activity, consumption and growth.

Ibor transition

Following the UK's Financial Conduct Authority ('FCA') announcement in July 2017 that it would no longer continue to persuade, or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021, we have been actively working to transition legacy contracts from Ibor's to products linked to near risk-free replacement rates ('RFRs') or alternative reference rates. For the cessation of the publication of US dollar Libor from 30 June 2023, we have implemented the majority of required processes, technology and RFR product capabilities in preparation for upcoming market events and continue to transition outstanding legacy contracts through the first half of 2023.

We have completed the transition of the majority of our uncommitted lending facilities and continue to make steady progress with the transition of the outstanding legacy committed lending facilities. Transition of our derivatives portfolio is progressing well with most clients reliant on industry mechanisms to transition to RFRs. For the limited number of bilateral derivatives trades where an alternative transition path is required client engagement is continuing. For certain products and contracts, including bonds and syndicated loans, we remain reliant on the continued support of agents and third parties, but we continue to progress those contracts requiring transition.

We will continue to monitor contracts that may be potentially more challenging to transition and need to rely upon legislative solutions. Additionally, following the FCA's consultation in November 2022 proposing that US dollar Libor is to be published using a 'synthetic' methodology for a defined period, we will continue to work with our clients to support them through the transition of their products if transition is not completed by 30 June 2023.

For US dollar Libor and other demising Ibors, we continue to be exposed to, and actively monitor, risks including:

- regulatory compliance and conduct risks, as the transition of legacy contracts to RFRs or alternative rates, or sales of products referencing RFRs, may not deliver fair client outcomes;
- resilience and operational risks, as changes to manual and automated processes, made in support of new RFR methodologies, and the transition of large volumes of Ibor contracts may lead to operational issues;
- legal risk, as issues arising from the use of legislative solutions and from legacy contracts that we are unable to transition may result in unintended or unfavorable outcomes for clients and market participants, which could potentially increase the risk of disputes;
- model risk, as there is a risk that changes to our models, to replace Ibor-related data, adversely affect the accuracy of model outputs; and
- market risk, because as a result of differences in Libor and RFR interest rates, we are exposed to basis risk resulting from the asymmetric adoption of rates across assets, liabilities and products.

We will monitor these risks through the remainder of the transition of legacy contracts, with a focus on fair client outcomes. The level of risk is diminishing in line with our process implementation and continued transition of contracts. Throughout 2023, we continue to be committed to engaging with our clients and investors to complete an orderly transition of the remaining contracts.

Financial instruments impacted by Ibor reform

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

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

	Financial instruments yet to transition to alternative benchmarks, by main benchmark	
	USD Libor	Others
At 31 Dec 2022	AED000	AED000
Non-derivative financial assets		
Loans and advances to customers	**8,979,052**	**–**
Other financial assets	**3,383,246**	**–**
Total non-derivative financial assets	**12,362,298**	**–**
Non-derivative financial liabilities		
Other financial liabilities	**1,471,632**	**–**
Total non-derivative financial liabilities	**1,471,632**	**–**
Derivative notional contract amount		
Interest rate	**73,632,539**	**2,353,000**
Others	**4,467,260**	**–**
Total derivative notional contract amount	**78,099,799**	**2,353,000**
At 31 Dec 2021		
Non-derivative financial assets		
Loans and advances to customers	13,338,841	–
Other financial assets	2,858,566	–
Total non-derivative financial assets	16,197,407	–
Non-derivative financial liabilities		
Other financial liabilities	1,083,550	–
Total non-derivative financial liabilities	1,083,550	–
Derivative notional contract amount		
Interest rate	83,061,586	1,017,000
Total derivative notional contract amount	83,061,586	1,017,000

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

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 30 June 2023, the date by which LIBOR is expected to cease; and
- are recognised on the bank's balance sheet.

Credit risk

Credit risk management

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

Credit risk generates the largest regulatory capital requirement of the risks the Bank incurs.

We have implemented HSBC Group wide credit risk management and related IFRS 9 processes. We continue to assess actively the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

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

The principal objectives of our credit risk management are:

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

IFRS 9 'Financial Instruments' Process

We have established IFRS 9 modelling and data processes which are subject to internal model risk governance including independent review of significant model developments. A centralised impairment engine performs the expected credit loss ('ECL') calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner. Management review forums with representatives from Credit Risk and Finance has been established in order to review and approve the impairment results.

Concentration of exposure

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

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

Further details on gross loans and advances to customers by industry sector are set out on page 54.

Credit quality of financial instruments

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

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

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

Impairment assessment

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

Write-off of loans and advances

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

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

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

Summary of credit risk

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

The IFRS 9 allowance for ECL has decreased from AED 3,475 million at 31 December 2021 to AED 2,861 million at 31 December 2022.

The IFRS 9 allowance for ECL at 31 December 2022 comprises AED 2,845 million (2021: AED 3,402 million) in respect of assets held at amortised cost, AED 1 million (2021: AED 1 million) on debt instruments measured at fair value through other comprehensive income and AED 16 million (2021: AED 72 million) in respect of loan commitments and financial guarantees.

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

	At 31 Dec 2022		At 31 Dec 2021	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000
Loans and advances to customers at amortised cost	52,842,110	(2,826,617)	54,337,370	(3,380,208)
Loans and advances to banks at amortised cost	16,173,180	(4,038)	19,394,748	(1,809)
Other financial assets measured at amortised costs	38,560,173	(14,003)	22,231,584	(20,456)
– cash and balances at central banks	9,185,600	–	2,479,265	–
– items in the course of collection from other banks	123,252	–	128,217	–
– reverse repurchase agreements – non-trading	22,064,566	–	18,000,696	–
– financial investments	5,226,561	(165)	–	–
– prepayments, accrued income and other assets	1,960,194	(13,838)	1,623,406	(20,456)
Total gross carrying amount on-balance sheet	107,575,463	(2,844,658)	95,963,702	(3,402,473)
Loans and other credit-related commitments	18,681,077	(14,922)	19,744,862	(31,818)
Financial guarantees	1,720,714	(643)	1,931,318	(39,693)
Total nominal amount off-balance sheet	20,401,791	(15,565)	21,676,180	(71,511)

	Fair value	Memorandum allowance for ECL	Fair value	Memorandum allowance for ECL
	AED000	AED000	AED000	AED000
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	14,450,940	(855)	33,942,697	(1,416)

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

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

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

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2022

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Loans and advances to customers at amortised cost	44,401,058	4,814,107	3,613,440	13,505	52,842,110	(97,819)	(176,448)	(2,541,866)	(10,484)	(2,826,617)
Loans and advances to banks at amortised cost	15,756,899	416,281	–	–	16,173,180	(3,736)	(302)	–	–	(4,038)
Other financial assets measured at amortised cost	38,299,514	246,643	14,016	–	38,560,173	(676)	(198)	(13,129)	–	(14,003)
Loans and other credit-related commitments	18,331,847	334,450	14,780	–	18,681,077	(9,103)	(5,459)	(360)	–	(14,922)
Financial guarantees	1,392,569	289,637	38,508	–	1,720,714	(277)	(360)	(6)	–	(643)
At 31 Dec 2022	118,181,887	6,101,118	3,680,744	13,505	127,977,254	(111,611)	(182,767)	(2,555,361)	(10,484)	(2,860,223)

	ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total
	%	%	%	%	%
Loans and advances to customers at amortised cost	0.2	3.7	70.3	77.6	5.3
Loans and advances to banks at amortised cost	–	0.1	–	–	–
Other financial assets measured at amortised cost	–	0.1	93.7	–	–
Loans and other credit-related commitments	–	1.6	2.4	–	0.1
Financial guarantees	–	0.1	–	–	–
At 31 Dec 2022	0.1	3.0	69.4	77.6	2.2

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2021

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Loans and advances to customers at amortised cost	42,654,220	7,632,375	4,029,478	21,297	54,337,370	(222,285)	(308,835)	(2,843,583)	(5,505)	(3,380,208)
Loans and advances to banks at amortised cost	19,394,631	117	—	—	19,394,748	(1,788)	(21)	—	—	(1,809)
Other financial assets measured at amortised cost	21,960,432	248,472	22,680	—	22,231,584	(1,145)	(1,634)	(17,677)	—	(20,456)
Loan and other credit-related commitments	18,964,892	776,050	3,920	—	19,744,862	(18,624)	(12,873)	(321)	—	(31,818)
Financial guarantees	1,207,034	698,920	25,364	—	1,931,318	(8,902)	(30,785)	(6)	—	(39,693)
At 31 Dec 2021	104,181,209	9,355,934	4,081,442	21,297	117,639,882	(252,744)	(354,148)	(2,861,587)	(5,505)	(3,473,984)

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

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Methodology for developing forward looking economic scenarios

The Bank has adopted four global economic scenarios which are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to our top and emerging risks.

Three of the scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables.

The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations. They may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends. The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10% probability. The Downside 2 is constructed with a 5% probability. The Central scenario is assigned the remaining 75%. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability-based scenario weighting approach when the economic outlook is determined to be particularly uncertain and risks are elevated.

In light of ongoing risks, management deviated from this probability weighting in the fourth quarter of 2022. As at 31 December 2022, the Central scenario has been assigned a weighting of 70%, the Downside scenario 20% and 5% each for the Upside and the Downside 2 scenarios, according to the decision of the Bank's senior management.

Consensus Economic Scenarios

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

Central scenario (2023Q1–2027Q4)

Probability (%)	**70**
GDP growth rate (%)	
2023: Annual average growth rate	**3.7**
2024: Annual average growth rate	**3.7**
2025: Annual average growth rate	**3.1**
5-year average	**3.2**
Oil price (US$/barrel)	
2023: Average oil price	**83.1**
2024: Average oil price	**79.0**
2025: Average oil price	**76.0**
5-year average	**77.2**
House price growth rate (%)	
2023: Annual average growth rate	**5.9**
2024: Annual average growth rate	**5.2**
2025: Annual average growth rate	**4.5**
5-year average	**4.4**
Inflation rate (%)	
2023: Annual average rate	**3.2**
2024: Annual average rate	**2.2**
2025: Annual average rate	**2.1**
5-year average	**2.3**

The following table describes the probability assigned in the consensus upside scenario, consensus downside scenario and downside 2 scenario, the key macroeconomic variables for each scenario and the largest quarterly measure observed for each variable over the forecast period. The additional downside scenario features a global recession and has been created to reflect management's view of severe risks.

Outer scenarios (less likely)

	Consensus upside scenario	Consensus downside scenario	Downside 2 scenario
Probability (%)	**5**	**20**	**5**
GDP growth rate (%)	**7.8 (4Q23)**	**1.0 (4Q23)**	**(3.7) (2Q24)**
Oil price (US$/barrel)	**85.7 (1Q23)**	**67.3 (4Q26)**	**54.1 (3Q24)**
House price growth rate (%)	**9.5 (2Q24)**	**(3.0) (4Q23)**	**(3.6) (4Q23)**
Inflation rate %	**1.5 (3Q24)**	**Min 1.8 (2Q23) Max 4.5 (1Q23)**	**Min 1.7 (4Q24) Max 4.8 (1Q23)**

How economic scenarios are reflected in the wholesale calculation of ECL

The Bank has adopted a globally consistent methodology for the application of forward economic guidance into the calculation of ECL by incorporating these scenarios into the estimation of the term structure of probability of default ('PD'), loss given default ('LGD') and through the exposure at default ('EAD').

For PDs, we consider the correlation of forward economic guidance to default rates. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates. For EAD calculations, we consider the correlation of forward economic guidance to potential utilization.

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

IFRS 9 ECL sensitivity to future economic conditions[1,2,3]

	2022	2021
Reported ECL (AEDm)	**165**	580
Gross carrying/nominal amount (AEDm)	**165,498**	164,407
Consensus central scenario	**151**	448
Consensus upside scenario	**110**	268
Consensus downside scenario	**202**	786
Downside 2 scenario	**342**	2611

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

How economic scenarios are reflected in the retail calculation of ECL

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

IFRS 9 ECL sensitivity to future economic conditions[1,2]

31 Dec 2022	Gross carrying amount AEDm	Reported ECL AEDm	Central scenario ECL AEDm	Upside scenario ECL AEDm	Downside scenario ECL AEDm	Downside 2 scenario ECL AEDm
Mortgages	**7,969**	**136**	**136**	**132**	**140**	**140**
Credit cards	**1,620**	**151**	**136**	**77**	**250**	**316**
Other	**2,637**	**62**	**62**	**55**	**70**	**81**
31 Dec 2021						
Mortgages	7,279	165	162	154	169	209
Credit cards	1,576	158	151	107	198	301
Other	2,259	70	66	48	77	92

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

Economic scenarios sensitivity analysis of ECL estimates

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

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

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. Management judgements were applied to reflect credit risk dynamics not captured by our models. The drivers of the management judgemental adjustments reflect the changing economic outlook and evolving risks. Where the macroeconomic and portfolio risk outlook continues to improve, supported by low level of observed defaults, adjustments initially taken to reflect increased risk expectation can be retired or reduced.

At 31 December 2022, management judgemental adjustments reflect an overlay of AED 84 million in the wholesale portfolio (2021: AED 290 million) and underlay of AED 26 million in retail portfolio (2021: overlay of AED 33 million).

Credit exposure

Maximum exposure to credit risk

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

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

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

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

Maximum exposure to credit risk

	2022			2021		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
	AED000	**AED000**	**AED000**	AED000	AED000	AED000
Loans and advances to customers held at amortised cost	**50,015,493**	**(380,931)**	**49,634,562**	50,957,162	(480,104)	50,477,058
Loans and advances to banks held at amortised cost	**16,169,142**	**–**	**16,169,142**	19,392,939	–	19,392,939
Other financial assets measured at amortised costs	**39,040,593**	**–**	**39,040,593**	22,655,973	–	22,655,973
– cash and balances at central banks	**9,185,600**	**–**	**9,185,600**	2,479,265	–	2,479,265
– items in the course of collection from other banks	**123,252**	**–**	**123,252**	128,217	–	128,217
– reverse repurchase agreements – non-trading	**22,064,566**	**–**	**22,064,566**	18,000,696	–	18,000,696
– financial investments[1]	**5,226,396**	**–**	**5,226,396**	–	–	–
– prepayments, accrued income and other assets	**2,440,779**	**–**	**2,440,779**	2,047,795	–	2,047,795
Derivatives	**6,899,854**	**(4,810,600)**	**2,089,254**	3,680,300	(3,007,043)	673,257
Total off-balance sheet	**79,008,788**	**–**	**79,008,788**	78,413,524	–	78,413,524
– financial guarantees and similar contracts	**33,851,505**	**–**	**33,851,505**	33,285,041	–	33,285,041
– loan and other credit-related commitments	**45,157,283**	**–**	**45,157,283**	45,128,483	–	45,128,483

1 *The disclosure has been updated to only include financial investments at amortised cost. Comparative data has been re-presented accordingly.*

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

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

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

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022

	Non-credit impaired				**Credit impaired**					
	Stage 1		**Stage 2**		**Stage 3**		**POCI**		**Total**	
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
At 1 Jan 2022	**82,220,777**	**(251,599)**	**9,107,462**	**(352,514)**	**4,058,762**	**(2,843,910)**	**21,297**	**(5,505)**	**95,408,298**	**(3,453,528)**
Transfers of financial instruments:	**1,454,406**	**(7,276)**	**(2,124,589)**	**127,310**	**670,183**	**(120,034)**	**–**	**–**	**–**	**–**
– Transfers from Stage 1 to Stage 2	**(3,579,963)**	**24,703**	**3,579,963**	**(24,703)**	**–**	**–**	**–**	**–**	**–**	**–**
– Transfers from Stage 2 to Stage 1	**5,034,369**	**(31,979)**	**(5,034,369)**	**31,979**	**–**	**–**	**–**	**–**	**–**	**–**
– Transfers to Stage 3	**–**	**–**	**(699,685)**	**131,608**	**699,685**	**(131,608)**	**–**	**–**	**–**	**–**
– Transfers from Stage 3	**–**	**–**	**29,502**	**(11,574)**	**(29,502)**	**11,574**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**18,378**	**–**	**(40,194)**	**–**	**(345)**	**–**	**–**	**–**	**(22,161)**
New financial assets originated or purchased	**33,886,565**	**(80,024)**	**–**	**–**	**–**	**–**	**–**	**–**	**33,886,565**	**(80,024)**
Asset derecognised (including final repayments)	**(30,720,726)**	**26,647**	**(937,162)**	**44,989**	**(322,950)**	**13,465**	**(1,653)**	**–**	**(31,982,491)**	**85,101**
Changes to risk parameters - further lending/repayments (including changes in credit quality)	**(6,958,649)**	**182,910**	**(191,236)**	**37,840**	**57,753**	**(348,164)**	**(6,139)**	**(4,979)**	**(7,098,271)**	**(132,393)**
Assets written off	**–**	**–**	**–**	**–**	**(797,020)**	**797,020**	**–**	**–**	**(797,020)**	**797,020**
Others	**–**	**29**	**–**	**–**	**–**	**(40,264)**	**–**	**–**	**–**	**(40,235)**
At 31 Dec 2022	**79,882,373**	**(110,935)**	**5,854,475**	**(182,569)**	**3,666,728**	**(2,542,232)**	**13,505**	**(10,484)**	**89,417,081**	**(2,846,220)**
ECL release/(charge) for the period	**–**	**147,911**	**–**	**42,635**	**–**	**(335,044)**	**–**	**(4,979)**	**–**	**(149,477)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**70,976**	**–**	**–**	**–**	**70,976**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total ECL (charge)/ release for the period	**–**	**147,911**	**–**	**42,635**	**–**	**(264,068)**	**–**	**(4,979)**	**–**	**(78,501)**

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022 (continued)

	At 31 Dec 2022		Twelve months ended 31 Dec 2022
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	AED000	AED000	AED000
As above	**89,417,081**	**(2,846,220)**	**(78,501)**
Other financial assets measured at amortised cost	**38,560,173**	**(14,003)**	**(6,870)**
Performance and other guarantees not considered for IFRS 9	**—**	**—**	**89,832**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary income statement	**127,977,254**	**(2,860,223)**	**4,461**
Debt instruments measured at FVOCI	**14,450,940**	**(855)**	**(553)**
Change in expected credit losses and other credit impairment charges	**—**	**(2,861,078)**	**3,908**

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2022 and that are still subject to enforcement activity is AED 157 million.

As shown in the previous table, the allowance for ECL for loans and advances to customers and banks and relevant loan commitments and financial guarantees decreased by AED 607 million during the year from AED 3,454 million at 31 December 2021 to AED 2,846million at 31 December 2022.

This decrease was primarily driven by:

- AED 797 million of assets written off; and
- AED 85 million due to assets derecognised.

These were partly offset by:

- AED 22 million on net remeasurement of ECL arising from transfer of stage;
- AED 80 million relating to new financial assets originated or purchased;
- AED 132 million relating to changes in risk parameters; and
- AED 40 million relating to other movements.

The ECL charge for the period of AED 149 million presented in the previous table consisted of AED 132 million charge relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages, AED 22 million charge relating to the net remeasurement impact of stage transfers and AED 5 million release relating to underlying net book volume movement.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2021

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2021	73,133,852	(257,457)	19,104,404	(835,131)	5,220,975	(3,427,401)	63,789	(15,602)	97,523,020	(4,535,591)
Transfers of financial instruments:	15,748,640	(312,271)	(16,203,878)	459,625	455,238	(147,354)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(6,827,567)	44,650	6,827,567	(44,650)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	22,576,207	(356,921)	(22,576,207)	356,921	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(773,307)	213,600	773,307	(213,600)	—	—	—	—
– Transfers from Stage 3	—	—	318,069	(66,246)	(318,069)	66,246	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	162,102	—	(41,253)	—	(352)	—	—	—	120,497
New financial assets originated or purchased	27,508,003	(106,509)	—	—	—	—	—	—	27,508,003	(106,509)
Asset derecognised (including final repayments)	(11,980,057)	25,614	(3,980,793)	62,165	(430,493)	120,806	—	—	(16,391,343)	208,585
Changes to risk parameters - further lending/repayments (including changes in credit quality)	(22,189,661)	236,922	10,187,729	2,080	(297,444)	(257,141)	(31,779)	(616)	(12,331,155)	(18,755)
Assets written off	—	—	—	—	(889,514)	889,514	(10,713)	10,713	(900,227)	900,227
Others	—	—	—	—	—	(21,982)	—	—	—	(21,982)
At 31 Dec 2021	82,220,777	(251,599)	9,107,462	(352,514)	4,058,762	(2,843,910)	21,297	(5,505)	95,408,298	(3,453,528)
ECL release/(charge) for the period	—	318,126	—	22,993	—	(136,687)	—	(615)	—	203,817
Recoveries	—	—	—	—	—	83,390	—	—	—	83,390
Others	—	—	—	—	—	(3)	—	—	—	(3)
Total ECL (charge)/release for the period	—	318,126	—	22,993	—	(53,300)	—	(615)	—	287,204

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2021 (continued)

	At 31 Dec 2021		Twelve months ended 31 Dec 2021
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	AED000	AED000	AED000
As above	95,408,298	(3,453,528)	287,204
Other financial assets measured at amortised cost	22,231,584	(20,456)	(2,495)
Performance and other guarantees not considered for IFRS 9	—	—	(24,381)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	117,639,882	(3,473,984)	260,328
Debt instruments measured at FVOCI	33,942,697	(1,416)	(194)
Total allowance for ECL/total income statement ECL charge for the period	—	(3,475,400)	260,134

1 *The disclosure has been enhanced to include further details on ECL and exposure movements during the period.*

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2021 and that are still subject to enforcement activity is AED 31 million.

Wholesale lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022

	Non-credit impaired				**Credit impaired**					
	Stage 1		**Stage 2**		**Stage 3**		**POCI**		**Total**	
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
At 1 Jan 2022	**66,041,078**	**(146,714)**	**8,533,633**	**(250,312)**	**3,698,028**	**(2,638,661)**	**21,297**	**(5,505)**	**78,294,036**	**(3,041,192)**
Transfers of financial instruments:	**1,928,592**	**(3,456)**	**(2,499,939)**	**60,955**	**571,347**	**(57,499)**	**–**	**–**	**–**	**–**
– Transfers from Stage 1 to Stage 2	**(2,869,585)**	**6,266**	**2,869,585**	**(6,266)**	**–**	**–**	**–**	**–**	**–**	**–**
– Transfers from Stage 2 to Stage 1	**4,798,177**	**(9,722)**	**(4,798,177)**	**9,722**	**–**	**–**	**–**	**–**	**–**	**–**
– Transfers to Stage 3	**–**	**–**	**(571,535)**	**57,499**	**571,535**	**(57,499)**	**–**	**–**	**–**	**–**
– Transfers from Stage 3	**–**	**–**	**188**	**–**	**(188)**	**–**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**6,746**	**–**	**(12,546)**	**–**	**–**	**–**	**–**	**–**	**(5,800)**
New financial assets originated or purchased	**26,710,311**	**(12,041)**	**–**	**–**	**–**	**–**	**–**	**–**	**26,710,311**	**(12,041)**
Asset derecognised (including final repayments)	**(26,958,422)**	**2,277**	**(789,055)**	**11,423**	**(236,054)**	**10,396**	**(1,653)**	**–**	**(27,985,184)**	**24,096**
Changes to risk parameters- further lending/repayments (including changes in credit quality)	**(5,140,360)**	**122,893**	**(117,248)**	**135,049**	**918**	**(306,470)**	**(6,139)**	**(4,979)**	**(5,262,829)**	**(53,507)**
Assets written off	**–**	**–**	**–**	**–**	**(646,650)**	**646,650**	**–**	**–**	**(646,650)**	**646,650**
Others	**–**	**29**	**–**	**–**	**–**	**(40,101)**	**–**	**–**	**–**	**(40,072)**
At 31 Dec 2022	**62,581,199**	**(30,266)**	**5,127,391**	**(55,431)**	**3,387,589**	**(2,385,685)**	**13,505**	**(10,484)**	**71,109,684**	**(2,481,866)**
ECL release/(charge) for the period	**–**	**119,875**	**–**	**133,926**	**–**	**(296,074)**	**–**	**(4,979)**	**–**	**(47,252)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**6,260**	**–**	**–**	**–**	**6,260**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total ECL (charge)/ release for the period	**–**	**119,875**	**–**	**133,926**	**–**	**(289,814)**	**–**	**(4,979)**	**–**	**(40,992)**

Wholesale lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2021

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2021	57,970,989	(169,875)	18,064,608	(492,029)	4,690,514	(3,116,628)	63,789	(15,602)	80,789,900	(3,794,134)
Transfers of financial instruments:	15,290,130	(187,464)	(15,541,619)	199,593	251,489	(12,129)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(6,401,732)	35,148	6,401,732	(35,148)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	21,691,862	(222,612)	(21,691,862)	222,612	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(479,254)	53,765	479,254	(53,765)	—	—	—	—
– Transfers from Stage 3	—	—	227,765	(41,636)	(227,765)	41,636	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	77,740	—	(29,632)	—	—	—	—	—	48,108
New financial assets originated or purchased	22,268,327	(58,323)	—	—	—	—	—	—	22,268,327	(58,323)
Asset derecognised (including final repayments)	(9,044,588)	2,265	(3,771,613)	8,103	(259,135)	85,013	—	—	(13,075,336)	95,381
Changes to risk parameters - further lending/ repayments (including changes in credit quality)	(20,443,780)	188,941	9,782,257	63,653	(355,954)	(202,029)	(31,779)	(616)	(11,049,256)	49,949
Assets written off	—	—	—	—	(628,886)	628,886	(10,713)	10,713	(639,599)	639,599
Others	—	2	—	—	—	(21,774)	—	—	—	(21,772)
At 31 Dec 2021	66,041,078	(146,714)	8,533,633	(250,312)	3,698,028	(2,638,661)	21,297	(5,505)	78,294,036	(3,041,192)
ECL release/(charge) for the period	—	210,623	—	42,123	—	(117,016)	—	(615)	—	135,115
Recoveries	—	—	—	—	—	15,321	—	—	—	15,321
Others	—	—	—	—	—	—	—	—	—	—
Total ECL (charge)/release for the period	—	210,623	—	42,123	—	(101,695)	—	(615)	—	150,436

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2022

	Non-credit impaired				**Credit impaired**			
	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
At 1 Jan 2022	**16,179,699**	**(104,885)**	**573,829**	**(102,202)**	**360,734**	**(205,249)**	**17,114,262**	**(412,336)**
Transfers of financial instruments:	**(474,186)**	**(3,820)**	**375,350**	**66,355**	**98,836**	**(62,535)**	**—**	**—**
– Transfers from Stage 1 to Stage 2	**(710,378)**	**18,437**	**710,378**	**(18,437)**	**—**	**—**	**—**	**—**
– Transfers from Stage 2 to Stage 1	**236,192**	**(22,257)**	**(236,192)**	**22,257**	**—**	**—**	**—**	**—**
– Transfers to Stage 3	**—**	**—**	**(128,150)**	**74,109**	**128,150**	**(74,109)**	**—**	**—**
– Transfers from Stage 3	**—**	**—**	**29,314**	**(11,574)**	**(29,314)**	**11,574**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**11,632**	**—**	**(27,648)**	**—**	**(345)**	**—**	**(16,361)**
New financial assets originated or purchased	**7,176,254**	**(67,983)**	**—**	**—**	**—**	**—**	**7,176,254**	**(67,983)**
Asset derecognised (including final repayments)	**(3,762,304)**	**24,370**	**(148,107)**	**33,566**	**(86,896)**	**3,069**	**(3,997,307)**	**61,005**
Changes to risk parameters - further lending repayments (including changes in credit quality)	**(1,818,289)**	**60,017**	**(73,988)**	**(97,209)**	**56,835**	**(41,694)**	**(1,835,442)**	**(78,886)**
Assets written off	**—**	**—**	**—**	**—**	**(150,370)**	**150,370**	**(150,370)**	**150,370**
Others	**—**	**—**	**—**	**—**	**—**	**(163)**	**—**	**(163)**
At 31 Dec 2022	**17,301,174**	**(80,669)**	**727,084**	**(127,138)**	**279,139**	**(156,547)**	**18,307,397**	**(364,354)**
ECL release/(charge) for the period	**—**	**28,036**	**—**	**(91,291)**	**—**	**(38,970)**	**—**	**(102,225)**
Recoveries	**—**	**—**	**—**	**—**	**—**	**64,716**	**—**	**64,716**
Others	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total ECL (charge)/release for the period	**—**	**28,036**	**—**	**(91,291)**	**—**	**25,746**	**—**	**(37,509)**

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2021

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2021	15,162,862	(87,582)	1,039,797	(343,102)	530,461	(310,773)	16,733,120	(741,457)
Transfers of financial instruments:	458,510	(124,807)	(662,259)	260,032	203,749	(135,225)	—	—
– Transfers from Stage 1 to Stage 2	(425,835)	9,502	425,835	(9,502)	—	—	—	—
– Transfers from Stage 2 to Stage 1	884,345	(134,309)	(884,345)	134,309	—	—	—	—
– Transfers to Stage 3	—	—	(294,053)	159,835	294,053	(159,835)	—	—
– Transfers from Stage 3	—	—	90,304	(24,610)	(90,304)	24,610	—	—
Net remeasurement of ECL arising from transfer of stage	—	84,362	—	(11,621)	—	(352)	—	72,389
New financial assets originated or purchased	5,555,256	(48,188)	—	—	—	—	5,555,256	(48,188)
Asset derecognised (including final repayments)	(3,251,048)	23,350	(209,181)	54,062	(171,358)	35,793	(3,631,587)	113,205
Changes to risk parameters - further lending repayments (including changes in credit quality)	(1,745,881)	47,980	405,472	(61,573)	58,510	(55,112)	(1,281,899)	(68,705)
Assets written off	—	—	—	—	(260,628)	260,628	(260,628)	260,628
Others	—	—	—	—	—	(208)	—	(208)
At 31 Dec 2021	16,179,699	(104,885)	573,829	(102,202)	360,734	(205,249)	17,114,262	(412,336)
ECL release/(charge) for the period	—	107,503	—	(19,130)	—	(19,671)	—	68,702
Recoveries	—	—	—	—	—	68,070	—	68,070
Others	—	—	—	—	—	(3)	—	(3)
Total ECL (charge)/release for the period	—	107,503	—	(19,130)	—	48,396	—	136,769

Credit quality of financial instruments

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

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

Credit quality classification

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

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

Quality classification definitions

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

Risk rating scales

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

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

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

Distribution of financial instruments by credit quality at 31 December 2022

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**21,251,771**	**12,428,071**	**13,517,583**	**2,017,740**	**3,626,945**	**52,842,110**	**(2,826,617)**	**50,015,493**
Loans and advances to banks held at amortised cost	**14,217,037**	**1,429,081**	**526,790**	**272**	**—**	**16,173,180**	**(4,038)**	**16,169,142**
Cash and balances at central banks	**9,185,600**	**—**	**—**	**—**	**—**	**9,185,600**	**—**	**9,185,600**
Items in the course of collection from other banks	**123,252**	**—**	**—**	**—**	**—**	**123,252**	**—**	**123,252**
Reverse repurchase agreements – non-trading	**19,991,327**	**1,461,726**	**611,513**	**—**	**—**	**22,064,566**	**—**	**22,064,566**
Prepayments, accrued income and other assets	**316,574**	**251,522**	**1,204,657**	**173,425**	**14,016**	**1,960,194**	**(13,838)**	**1,946,356**
– endorsements and acceptances	**89,823**	**251,522**	**351,014**	**173,425**	**1,786**	**867,570**	**(1,228)**	**866,342**
– accrued income and other	**226,751**	**—**	**853,643**	**—**	**12,230**	**1,092,624**	**(12,610)**	**1,080,014**
Financial investments at amortised cost	**5,226,561**	**—**	**—**	**—**	**—**	**5,226,561**	**(165)**	**5,226,396**
Debt instruments measured at fair value through other comprehensive income[1]	**14,618,952**	**—**	**96,906**	**—**	**—**	**14,715,858**	**(855)**	**14,715,003**
Out-of-scope for IFRS 9								
Trading assets	**5,389,323**	**304,418**	**864,595**	**—**	**1,063**	**6,559,399**	**—**	**6,559,399**
Derivatives	**6,713,323**	**115,541**	**66,433**	**4,557**	**—**	**6,899,854**	**—**	**6,899,854**
Total gross carrying amount on balance sheet	**97,033,720**	**15,990,359**	**16,888,477**	**2,195,994**	**3,642,024**	**135,750,574**	**(2,845,513)**	**132,905,061**
Percentage of total credit quality	**71%**	**12%**	**12%**	**2%**	**3%**	**100%**		
Loan and other credit related commitments	**9,262,383**	**5,406,098**	**3,880,635**	**117,181**	**14,780**	**18,681,077**	**(14,922)**	**18,666,155**
Financial guarantees	**541,191**	**508,911**	**616,339**	**15,765**	**38,508**	**1,720,714**	**(643)**	**1,720,071**
Total nominal amount off balance sheet	**9,803,574**	**5,915,009**	**4,496,974**	**132,946**	**53,288**	**20,401,791**	**(15,565)**	**20,386,226**
At 31 Dec 2022	**106,837,294**	**21,905,368**	**21,385,451**	**2,328,940**	**3,695,312**	**156,152,365**	**(2,861,078)**	**153,291,287**

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset before adjusting for any loss allowance. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments by credit quality at 31 December 2021

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	16,140,854	17,977,799	12,564,225	3,619,511	4,034,981	54,337,370	(3,380,208)	50,957,162
Loans and advances to banks held at amortised cost	17,591,241	1,414,292	389,098	117	—	19,394,748	(1,809)	19,392,939
Cash and balances at central banks	2,479,265	—	—	—	—	2,479,265	—	2,479,265
Items in the course of collection from other banks	128,217	—	—	—	—	128,217	—	128,217
Reverse repurchase agreements – non-trading	15,829,555	1,203,498	967,643	—	—	18,000,696	—	18,000,696
Prepayments, accrued income and other assets	315,341	335,029	860,477	89,878	22,681	1,623,406	(20,456)	1,602,950
– endorsements and acceptances	63,018	335,029	504,337	89,878	10,574	1,002,836	(8,349)	994,487
– accrued income and other	252,323	—	356,140	—	12,107	620,570	(12,107)	608,463
Financial investments at amortised cost	—	—	—	—	—	—	—	—
Debt instruments measured at fair value through other comprehensive income	33,941,281	—	—	—	—	33,941,281	(1,416)	33,939,865
Out-of-scope for IFRS 9								
Trading assets	2,392,502	225,791	1,444,769	—	—	4,063,062	—	4,063,062
Derivatives	3,351,630	209,835	116,117	394	2,324	3,680,300	—	3,680,300
Total gross carrying amount on balance sheet	92,169,886	21,366,244	16,342,329	3,709,900	4,059,986	137,648,345	(3,403,889)	134,244,456
Percentage of total credit quality	67%	16%	12%	3%	3%	100%		
Loan and other credit related commitments	8,164,118	8,197,712	3,170,680	208,426	3,926	19,744,862	(31,818)	19,713,044
Financial guarantees	443,862	600,082	790,462	71,554	25,358	1,931,318	(39,693)	1,891,625
Total nominal amount off balance sheet	8,607,980	8,797,794	3,961,142	279,980	29,284	21,676,180	(71,511)	21,604,669
At 31 Dec 2021	100,777,866	30,164,038	20,303,471	3,989,880	4,089,270	159,324,525	(3,475,400)	155,849,125

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2022

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Gross carrying amount on balance sheet	84,931,074	15,570,400	15,957,449	2,191,437	3,640,961	122,291,321	(2,845,513)	119,445,808
Loans and advances to customers held at amortised cost	21,251,771	12,428,071	13,517,583	2,017,740	3,626,945	52,842,110	(2,826,617)	50,015,493
– stage 1	21,251,764	12,020,196	11,026,001	103,097	–	44,401,058	(97,819)	44,303,239
– stage 2	7	407,875	2,491,582	1,914,643	–	4,814,107	(176,448)	4,637,659
– stage 3	–	–	–	–	3,613,440	3,613,440	(2,541,866)	1,071,574
– POCI	–	–	–	–	13,505	13,505	(10,484)	3,021
Loans and advances to banks held at amortised cost	14,217,037	1,429,081	526,790	272	–	16,173,180	(4,038)	16,169,142
– stage 1	14,217,037	1,293,945	245,917	–	–	15,756,899	(3,736)	15,753,163
– stage 2	–	135,136	280,873	272	–	416,281	(302)	415,979
– stage 3					–	–	–	–
– POCI					–	–	–	–
Other financial assets measured at amortised costs	34,843,314	1,713,248	1,816,170	173,425	14,016	38,560,173	(14,003)	38,546,170
– stage 1	34,843,314	1,712,747	1,740,124	3,329	–	38,299,514	(676)	38,298,838
– stage 2	–	501	76,046	170,096	–	246,643	(198)	246,445
– stage 3	–	–	–	–	14,016	14,016	(13,129)	887
– POCI	–	–	–	–	–	–	–	–
Debt instruments measured at fair value through other comprehensive income[1]	14,618,952	–	96,906	–	–	14,715,858	(855)	14,715,003
– stage 1	14,618,952	–	96,906	–	–	14,715,858	(855)	14,715,003
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Nominal amount off balance sheet	9,803,574	5,915,009	4,496,974	132,946	53,288	20,401,791	(15,565)	20,386,226
Loan and other credit-related commitments	9,262,383	5,406,098	3,880,635	117,181	14,780	18,681,077	(14,922)	18,666,155
– stage 1	9,261,086	5,325,617	3,680,244	64,900	–	18,331,847	(9,103)	18,322,744
– stage 2	1,297	80,481	200,391	52,281	–	334,450	(5,459)	328,991
– stage 3	–	–	–	–	14,780	14,780	(360)	14,420
– POCI	–	–	–	–	–	–	–	–
Financial guarantees	541,191	508,911	616,339	15,765	38,508	1,720,714	(643)	1,720,071
– stage 1	539,116	498,533	348,255	6,665	–	1,392,569	(277)	1,392,292
– stage 2	2,075	10,378	268,084	9,100	–	289,637	(360)	289,277
– stage 3	–	–	–	–	38,508	38,508	(6)	38,502
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2022	**94,734,648**	**21,485,409**	**20,454,423**	**2,324,383**	**3,694,249**	**142,693,112**	**(2,861,078)**	**139,832,034**

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset before adjusting for any loss allowance. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2021[1]

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Gross carrying amount on balance sheet	86,425,752	20,930,619	14,781,444	3,709,507	4,057,661	129,904,983	(3,403,889)	126,501,094
Loans and advances to customers held at amortised cost	16,140,854	17,977,799	12,564,225	3,619,511	4,034,981	54,337,370	(3,380,208)	50,957,162
– stage 1	15,846,252	16,961,905	9,146,127	699,938	—	42,654,222	(222,285)	42,431,937
– stage 2	294,602	1,015,894	3,418,098	2,903,781	—	7,632,375	(308,835)	7,323,540
– stage 3	—	—	—	—	4,029,476	4,029,476	(2,843,583)	1,185,893
– POCI	—	—	—	15,792	5,505	21,297	(5,505)	15,792
Loans and advances to banks held at amortised cost	17,591,241	1,414,292	389,098	117	—	19,394,748	(1,809)	19,392,939
– stage 1	17,591,241	1,414,292	389,098	—	—	19,394,631	(1,788)	19,392,843
– stage 2	—	—	—	117	—	117	(21)	96
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised costs	18,752,376	1,538,528	1,828,121	89,879	22,680	22,231,584	(20,456)	22,211,128
– stage 1	18,746,334	1,497,450	1,713,383	3,265	—	21,960,432	(1,145)	21,959,287
– stage 2	6,042	41,078	114,738	86,614	—	248,472	(1,634)	246,838
– stage 3	—	—	—	—	22,680	22,680	(17,677)	5,003
– POCI	—	—	—	—	—	—	—	—
Debt instruments measured at fair value through other comprehensive income	33,941,281	—	—	—	—	33,941,281	(1,416)	33,939,865
– stage 1	33,941,281	—	—	—	—	33,941,281	(1,416)	33,939,865
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Nominal amount off balance sheet	8,607,980	8,797,794	3,961,142	279,980	29,284	21,676,180	(71,511)	21,604,669
Loan and other credit-related commitments	8,164,118	8,197,712	3,170,680	208,426	3,926	19,744,862	(31,818)	19,713,044
– stage 1	7,806,309	8,044,645	2,949,682	164,251	—	18,964,887	(18,624)	18,946,263
– stage 2	357,809	153,067	220,998	44,175	—	776,049	(12,873)	763,176
– stage 3	—	—	—	—	3,926	3,926	(321)	3,605
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	443,862	600,082	790,462	71,554	25,358	1,931,318	(39,693)	1,891,625
– stage 1	343,419	382,458	480,281	881	—	1,207,039	(8,902)	1,198,137
– stage 2	100,443	217,624	310,181	70,673	—	698,921	(30,785)	668,136
– stage 3	—	—	—	—	25,358	25,358	(6)	25,352
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2021	95,033,732	29,728,413	18,742,586	3,989,487	4,086,945	151,581,163	(3,475,400)	148,105,763

1 *The disclosure has been enhanced to include stage wise breakdown for each line item.*

Past due but not impaired gross financial instruments

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

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

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

Stage 2 days past due analysis

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD
	AED000	AED000	AED000	AED000	AED000	AED000	%	%	%
Loans and advances to customers held at amortised cost	**4,814,107**	**63,219**	**72,684**	**(176,448)**	**(16,906)**	**(16,932)**	**(3.7)**	**(26.7)**	**(23.3)**
– personal	**642,945**	**41,641**	**45,371**	**(127,135)**	**(16,855)**	**(16,749)**	**(19.8)**	**(40.5)**	**(36.9)**
– corporate and commercial	**4,171,162**	**21,578**	**27,313**	**(49,313)**	**(51)**	**(183)**	**(1.2)**	**(0.2)**	**(0.7)**
Loans and advances to banks at amortised cost	**416,281**	**–**	**–**	**(302)**	**–**	**–**	**(0.1)**	**–**	**–**
Other financial assets measured at amortised cost	**246,643**	**–**	**554**	**(198)**	**–**	**–**	**(0.1)**	**–**	**–**
At 31 Dec 2022	**5,477,031**	**63,219**	**73,238**	**(176,948)**	**(16,906)**	**(16,932)**	**(3.2)**	**(26.7)**	**(23.1)**
Loans and advances to customers held at amortised cost	7,632,375	102,984	58,409	(308,835)	(20,031)	(21,504)	(4.0)	(19.5)	(36.8)
– personal	486,491	71,907	46,436	(102,200)	(14,732)	(21,079)	(21.0)	(20.5)	(45.4)
– corporate and commercial	7,119,654	31,077	11,973	(206,635)	(5,299)	(425)	(2.9)	(17.1)	(3.5)
– non-bank financial institutions	26,230	–	–	–	–	–	–	–	–
Loans and advances to banks at amortised cost	117	–	–	(21)	–	–	(17.9)	–	–
Other financial assets measured at amortised cost	248,472	3,034	719	(1,633)	(9)	(122)	(0.7)	(0.3)	–
At 31 Dec 2021	7,880,964	106,018	59,128	(310,489)	(20,040)	(21,626)	(3.9)	(18.9)	(36.6)

Impaired loans

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

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

Forborne loans and advances

Forbearance measures consist of concessions towards an obligor that is experiencing or about to experience difficulties in meeting its financial commitments.

We continue to class loans as forborne when we modify the contractual payment terms due to having significant concerns about the borrowers' ability to meet contractual payments when they were due.

For our wholesale portfolio, we began identifying non-payment-related concessions in 2021. For our retail portfolios, we began identifying them during 2022.

The comparative disclosures have been presented under the prior definition of forborne for the wholesale and retail portfolios.

Credit quality of forborne loans

For wholesale lending, where payment-related forbearance measures result in a diminished financial obligation, or if there are other indicators of impairment, the loan will be classified as credit impaired if it is not already so classified. All facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a payment-related forborne loan.

For retail lending, where a material payment-related concession has been granted, the loan will be classified as credit impaired. In isolation, non-payment forbearance measures may not result in the loan being classified as credit impaired unless combined with other indicators of credit impairment. These are classed as performing forborne loans for both wholesale and retail lending.

Wholesale and retail lending forborne loans are classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Any forborne loans not considered credit impaired will remain forborne for a minimum of two years from the date that credit impairment no longer applies. For wholesale and retail lending, any forbearance measures granted on a loan already classed as forborne results in the customer being classed as credit impaired.

Forborne loans and recognition of expected credit losses

Forborne loans expected credit loss assessments reflect the higher rates of losses typically experienced with these types of loans such that they are in stage 2 and stage 3. The higher rates are more pronounced in unsecured retail lending requiring further segmentation. For wholesale lending, forborne loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in forborne loans.

Forborne loans and advances to customers by industry sector

	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Total forborne loans
	AED000	AED000	AED000	AED000	AED000
Stage 1	—	—	—	—	—
Stage 2	**40,803**	**13,292**	**1,510,552**	—	**1,564,647**
Stage 3	**65,307**	**9,189**	**1,775,587**	—	**1,850,083**
Forborne loans at 31 Dec 2022	**106,110**	**22,481**	**3,286,139**	—	**3,414,730**
Allowance for expected credit losses on forborne loans					**1,221,940**
Stage 1	—	—	1,489	—	1,489
Stage 2	—	—	326,755	—	326,755
Stage 3	145,109	88,021	1,289,290	—	1,522,420
Forborne loans at 31 Dec 2021	145,109	88,021	1,617,534	—	1,850,664
Allowance for expected credit losses on forborne loans					1,088,936

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

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
	Total	As a % of total gross loans
At 31 Dec 2022	**AED000**	**%**
Personal		
– residential mortgages	**7,726,400**	**14.7**
– other personal	**4,918,198**	**9.3**
	12,644,598	**24.0**
Corporate and commercial		
– commercial, industrial and international trade	**22,192,429**	**42.0**
– commercial real estate	**7,188,915**	**13.6**
– government	**4,900,525**	**9.3**
– other commercial	**5,368,981**	**10.2**
	39,650,850	**75.0**
Financial		
– non-bank financial institutions	**546,662**	**1.0**
Total gross loans and advances to customers	**52,842,110**	**100.0**
Impaired loans		
– as a percentage of gross loans and advances to customers	**6.86%**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**5.35%**	
At 31 Dec 2021		
Personal		
– residential mortgages	7,066,267	13.0
– other personal	4,524,508	8.3
	11,590,775	21.3
Corporate and commercial		
– commercial, industrial and international trade	21,648,409	39.8
– commercial real estate	6,847,405	12.6
– government	6,248,304	11.5
– other commercial	7,307,048	13.4
	42,051,166	77.4
Financial		
– non-bank financial institutions	695,429	1.3
Total gross loans and advances to customers	54,337,370	100.0
Impaired loans		
– as a percentage of gross loans and advances to customers	7.45%	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	6.19%	

Collateral and other credit enhancements held

Loans and advances held at amortised cost

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

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

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

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

	Gross carrying/nominal amount	
	2022	2021
	AED000	AED000
Stage 1		
Fully collateralised	**7,295,582**	6,586,575
LTV ratio:		
– less than 50%	**2,894,874**	1,794,101
– 51% to 60%	**1,968,048**	1,831,697
– 61% to 70%	**1,295,195**	1,795,606
– 71% to 80%	**1,096,247**	928,901
– 81% to 90%	**21,285**	204,064
– 91% to 100%	**19,933**	32,206
Partially collateralised (A):	**36,208**	52,449
LTV ratio:		
– 101% to 110%	**4,675**	18,114
– 111% to 120%	**2,955**	12,643
– greater than 120%	**28,578**	21,692
– *collateral value on A*	***30,111***	*47,827*
Total	**7,331,790**	6,639,024
Stage 2		
Fully collateralised	**249,608**	220,949
LTV ratio:		
– less than 50%	**130,896**	82,192
– 51% to 60%	**66,442**	58,024
– 61% to 70%	**31,807**	55,667
– 71% to 80%	**17,709**	5,845
– 81% to 90%	**2,275**	14,160
– 91% to 100%	**479**	5,061
Partially collateralised (B):	**4,977**	12,415
LTV ratio:		
– 101% to 110%	**1,973**	1,261
– 111% to 120%	**485**	11,044
– greater than 120%	**2,519**	110
– *collateral value on B*	***4,109***	*7,765*
Total	**254,585**	233,364
Stage 3		
Fully collateralised	**124,268**	162,551
LTV ratio:		
– less than 50%	**41,292**	39,009
– 51% to 60%	**15,090**	11,602
– 61% to 70%	**25,566**	29,157
– 71% to 80%	**13,034**	36,906
– 81% to 90%	**22,886**	21,763
– 91% to 100%	**6,400**	24,114
Partially collateralised (C):	**16,461**	32,099
LTV ratio:		
– 101% to 110%	**–**	11,005
– 111% to 120%	**3,535**	3,255
– greater than 120%	**12,926**	17,839
– *collateral value on C*	***6,092***	*19,280*
Total	**140,729**	194,650
At 31 Dec	**7,727,104**	7,067,038

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

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

Other personal lending

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

Collateral on loans and advances

Commercial real estate loans and advances

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

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

	Gross carrying/nominal amount	
	2022	2021
	AED000	AED000
Stage 1		
Not collateralised	**3,618,626**	1,504,422
Fully collateralised	**559,800**	594,966
LTV ratio:		
– less than 50%	**136,159**	10,080
– 51% to 75%	**376,280**	–
– 76% to 90%	**–**	147,341
– 91% to 100%	**47,361**	437,545
Partially collateralised (A):	**1,213,646**	672,673
– *collateral value on A*	***759,532***	*368,292*
Total	**5,392,072**	2,772,061
Stage 2		
Not collateralised	**786,466**	1,658,796
Fully collateralised	**–**	296,361
LTV ratio:		
– less than 50%	**–**	295,430
– 76% to 90%	**–**	878
– 91% to 100%	**–**	53
Partially collateralised (B):	**382,054**	646,758
– *collateral value on B*	***254,900***	*488,674*
Total	**1,168,520**	2,601,915
Stage 3		
Not collateralised	**173,343**	112,937
Fully collateralised	**135,555**	518,087
LTV ratio:		
– less than 50%	**–**	–
– 51% to 75%	**–**	21,941
– 76% to 90%	**135,555**	141,805
– 91% to 100%	**–**	354,341
Partially collateralised (B):	**661,255**	–
– *collateral value on B*	***377,992***	–
Total	**970,153**	631,024
At 31 Dec	**7,530,745**	6,005,000

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

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

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

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

	Gross carrying/nominal amount	
	2022	2021
	AED000	AED000
Stage 1		
Not collateralised	**60,156,844**	53,340,996
Fully collateralised	**392,556**	577,978
LTV ratio:		
– less than 50%	**125,418**	108,637
– 51% to 75%	**103,961**	58,588
– 76% to 90%	**53,027**	327,556
– 91% to 100%	**110,150**	83,197
Partially collateralised (A):	**2,790,471**	2,903,197
– *collateral value on A*	***663,365***	*662,959*
Total	**63,339,871**	56,822,171
Stage 2		
Not collateralised	**3,755,936**	11,605,650
Fully collateralised	**264,508**	513,997
LTV ratio:		
– less than 50%	**11,237**	21,681
– 51% to 75%	**5,484**	148,839
– 76% to 90%	**231,598**	59,448
– 91% to 100%	**16,189**	284,029
Partially collateralised (B):	**1,011,713**	1,617,255
– *collateral value on B*	***495,204***	*852,261*
Total	**5,032,157**	13,736,902
Stage 3		
Not collateralised	**1,483,677**	2,420,961
Fully collateralised	**92,263**	97,382
LTV ratio:		
– less than 50%	**10,834**	6,083
– 51% to 75%	**78,931**	–
– 76% to 90%	**–**	9,876
– 91% to 100%	**2,498**	81,423
Partially collateralised (C):	**827,819**	778,395
– *collateral value on C*	***225,836***	*229,419*
Total	**2,403,759**	3,296,738
POCI		
Not collateralised	**5,505**	5,505
Fully collateralised	**–**	15,792
LTV ratio:		
– 91% to 100%	**–**	15,792
Partially collateralised (D):	**8,477**	–
– *collateral value on D*	**913**	–
Total	**13,982**	21,297
At 31 Dec	**70,789,769**	73,877,108

Other credit risk exposures

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

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

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

Derivatives

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

Treasury Risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements. Treasury risk also includes the risk to our earnings or capital due to non-trading book foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

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

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

Governance and structure

The Global Head of Traded and Treasury Risk Management and Risk Analytics is the accountable risk steward for all treasury risks. The Group Treasurer is the risk owner for all treasury risks, with the exception of pension risk, which is co-owned together with the Group Head of Performance, Reward and Employee Relations.

Capital risk, liquidity risk, interest rate risk in the banking book, structural foreign exchange risk and transactional foreign exchange risk are the responsibility of the Risk Committee ('RC'). The Treasury function actively manages these risks on an ongoing basis, supported by the Asset and Liability Management Committee ('ALCO'), overseen by Treasury Risk Management and the Risk Management Meeting ('RMM').

Assessment and risk appetite

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

We aim to ensure that management has oversight of our liquidity and funding risks by maintaining comprehensive policies, metrics and controls. We meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively. These metrics are set and managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the Bank's policies and controls.

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

The Treasury function uses a number of measures to monitor and control interest rate risk in the banking book, including:

- net interest income sensitivity;
- economic value of equity sensitivity; and
- non-trading value at risk.

Stress testing and recovery planning

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

Risks to capital and liquidity

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

Liquidity and Funding

Overview

At 31 December 2022, the Bank was above regulatory minimum liquidity and funding levels. The bank maintains sufficient unencumbered liquid assets to comply with local and regulatory requirements. The Bank further consider an internal liquidity metric, which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Contingency planning

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

Management of Liquidity and Funding Risk

Liquidity coverage ratio ('LCR')

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

Net stable funding ratio ('NSFR')

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

Depositor concentration and wholesale market term funding maturity concentration

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

The Bank monitors depositor concentration and term funding maturity concentration. Both metrics are subject to limits.

Liquid assets

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

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

Further details in respect of the Bank's Liquidity and Funding ratios are set out on Page 67.

Primary sources of funding

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

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

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

Of the total liabilities of AED 118,700 million at 31 December 2022, funding from customers amounted to AED 86,037 million, of which AED 85,887 million was contractually repayable within one year.

An analysis of cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date is included in Note 25.

Assets available to meet these liabilities, and to cover outstanding commitments to lend (AED 45,157 million), included cash, central bank balances, items in the course of collection and treasury and other bills (AED 16,298 million); loans to banks (AED 16,169 million, including AED 14,984 million repayable within one year); and loans to customers (AED 50,015 million, including AED 23,766 million repayable within one year). In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

Market risk

Market risk management

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

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

Market risk measures

Monitoring and limiting market risk exposures

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

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

Market risk is managed and controlled through limits approved by the Risk Management Meeting for HSBC Holdings and our various global businesses. These limits are allocated across business lines and to the HSBC Group's legal entities.

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

HSBC Group Risk, an independent unit within HSBC Group, is responsible for our market risk management policies and measurement techniques. The Bank has an independent market risk management and control function that is responsible for measuring market risk exposures in accordance with the policies defined by HSBC Group Risk, and monitoring and reporting these exposures against the prescribed limits on a daily basis. The Bank assesses the market risks arising on each product in its business and to transfer them to either its MSS unit for management, or to separate books managed under the supervision of the local ALCO. Our aim is to ensure that all market risks are consolidated within operations that have the necessary skills, tools, management and governance to manage them professionally. In certain cases where the market risks cannot be fully transferred, the bank identifies the impact of varying scenarios on valuations or on net interest income resulting from any residual risk positions.

Sensitivity analysis

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

Value at risk

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

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

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

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

Trading and non-trading portfolio

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

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

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

Value at risk of the trading and non-trading portfolio

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

Value at risk

	2022	2021
	AED000	AED000
At 31 Dec	**28,028**	20,860
Average	**20,116**	17,290
Maximum	**31,732**	28,522
Minimum	**8,107**	9,659

Trading portfolios

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

Market-making and position-taking is undertaken within MSS. The average VaR for such trading intent activity at 31 December 2022 was AED 16 million (2021: AED 6 million).

VaR by risk type for the trading intent activities

	Foreign exchange (FX)	Interest rate	Credit spread	Total
	AED000	AED000	AED000	AED000
At 31 Dec 2022[1]	**1,017**	**16,003**	**1,629**	**16,034**
Average	**1,588**	**8,631**	**1,472**	**9,218**
Maximum	**7,373**	**22,579**	**3,260**	**22,996**
Minimum	**383**	**3,192**	**671**	**3,333**
At 31 Dec 2021	2,151	5,514	1,900	5,851
Average	3,677	9,800	2,131	10,744
Maximum	7,735	18,512	6,363	19,334
Minimum	954	4,998	773	5,800

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

Non-Trading portfolios

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

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

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

VaR by risk type for the non-trading activities

	Interest rate	Credit spread	Total
	AED000	AED000	AED000
At 31 Dec 2022	**17,840**	**1,595**	**17,840**
Average	**15,324**	**2,098**	**15,324**
Maximum	**24,965**	**3,403**	**24,965**
Minimum	**6,725**	**1,432**	**6,725**
At 31 Dec 2021	18,850	2,383	18,465
Average	14,606	3,512	14,710
Maximum	24,832	6,054	25,694
Minimum	7,530	1,722	8,877

Gap risk

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

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

The Bank incurred no material losses arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2022 (2021: nil).

De-peg risk

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

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

Net interest income sensitivity

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

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

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

Capital management

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

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

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

Further details in respect of the Bank's Capital requirement are set out on page 67.

29 Contingent liabilities, contractual commitments and guarantees

	2022	2021
	AED000	AED000
Guarantees and other contingent liabilities		
Guarantees	**33,851,506**	33,478,161
Commitments		
Documentary credits and short-term trade-related transactions	**1,271,089**	1,080,113
Undrawn formal standby facilities, credit lines and other commitments to lend	**43,886,194**	44,095,129
At 31 Dec	**45,157,283**	45,175,242

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

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

	2022	2021
	AED000	AED000
Guarantees and assets pledged by the bank as collateral security	**4,021,316**	3,326,015
At 31 Dec	**4,021,316**	3,326,015

Guarantees

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

	2022		2021	
	Guarantees in favour of third parties	Guarantees by the Bank in favour of other HSBC Group entities	Guarantees in favour of third parties	Guarantees by the Bank in favour of other HSBC Group entities
	AED000	AED000	AED000	AED000
Financial guarantees[1]	**1,543,227**	**177,487**	1,434,202	142,190
Credit-related guarantees[2]	**22,566,305**	**2,602,115**	23,353,651	2,308,521
Other guarantees	**5,720,657**	**1,241,714**	5,364,293	875,304
At 31 Dec	**29,830,189**	**4,021,316**	30,152,146	3,326,015

1 *Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due.*

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

Other commitments

In addition to the commitments disclosed above, at 31 December 2022 the Bank had no capital commitments to purchase, within one year, land and building and other fixed assets (2021: AED Nil).

30 Finance lease receivables

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

	2022			2021		
	Total future minimum payments	**Unearned finance income**	**Present value**	Total future minimum payments	Unearned finance income	Present value
	AED000	**AED000**	**AED000**	AED000	AED000	AED000
Lease receivables:						
– no later than one year	**15,576**	**(4,254)**	**11,322**	10,897	(4,545)	6,352
– later than one year and no later than five years	**107,344**	**(7,340)**	**100,004**	129,337	(11,718)	117,619
– later than five years	**7,058**	**(327)**	**6,731**	15,030	(752)	14,278
At 31 Dec	**129,978**	**(11,921)**	**118,057**	155,264	(17,015)	138,249

31 Legal proceedings and regulatory matters

The Bank is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the Bank considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2022. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matters

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

In December 2012, HSBC Holdings entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013 and again in 2020) as well as a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. For several years thereafter, HSBC retained a Skilled Person under section 166 of the UK Financial Services and Markets Act and an Independent Consultant under the FRB cease-and-desist order to produce periodic assessments of the Group's AML and sanctions compliance programme. The Skilled Person completed its engagement in the second quarter of 2021, and the FCA determined that no further Skilled Person work is required. Separately, the Independent Consultant's engagement is now complete and, in August 2022, the FRB terminated its cease-and-desist order.

US Anti-Terrorism Act Related Litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies including HSBC Bank Middle East Limited and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in the Middle East. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. Eight actions that include HSBC Bank Middle East Limited remain pending in federal courts and HSBC's motions to dismiss have been granted in four of these cases. In January 2023, the appellate court affirmed the dismissal of one of the cases, and the plaintiff's request for review of this decision by the full appellate court has been denied. The dismissals in the other three cases are subject to appeal. The four remaining actions are at an early stage.

Other litigation

In 2019, the Bank was included as a defendant in a US$30m claim filed before the Courts of the United Arab Emirates against other joint defendants for the provision of banking information and documents only. The plaintiff later amended the claim to include the Bank as a defendant to the monetary claims already filed against the other co-defendants. In November 2020, the Court of First Instance dismissed the case in its entirety against all defendants including the Bank, and this judgment was upheld by the Court of Appeal in September 2022. In November 2022, the Plaintiff filed a challenge before the Court of Cassation where the case is currently pending.

The potential undiscounted amount of the total payments that the Bank could be required to make, if there was an adverse decision related to the lawsuit, is estimated to be approximately US$30m plus interest and costs.

32 Related party transactions

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

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

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

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

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

Transactions, arrangements and agreements including Key Management Personnel

Compensation of Key Management Personnel

	2022	2021
	AED000	AED000
Remuneration (wages and bonus)	29,522	30,400
Post-employment benefits	1,070	1,646
Share-based payments	10,482	8,989
Year ended 31 Dec	**41,074**	**41,035**

Transactions and balances during the year with Key Management Personnel

	2022		2021	
	Balance as at 31 Dec	Highest amounts outstanding during the year	Balance as at 31 Dec	Highest amounts outstanding during the year
	AED000	AED000	AED000	AED000
Key Management Personnel[1]				
Advances and credits	7,146	8,596	3,677	4,552
Deposits	2,870	8,100	3,788	9,232

1 *Includes Key Management Personnel, close family members of Key Management Personnel and entities that are controlled or jointly controlled by Key Management Personnel or their close family members.*

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

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

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

	2022		2021	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	AED000	AED000	AED000	AED000
Assets				
Prepayments, accrued income and other assets	2,245	237	2,236	693
Liabilities				
Accruals, deferred income and other liabilities	24,733	836	46,967	880

	For the year ended	
	31 Dec 2022	31 Dec 2021
	AED000	AED000
Income statement		
Other operating income	123	(187)
General and administrative expenses	10,379	8,928

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

	2022		2021	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	AED000	**AED000**	AED000	AED000
Assets				
Derivatives	**6,913,632**	**5,894,556**	4,669,150	2,920,302
Loans and advances to banks (including reverse repos)	**9,928,738**	**9,928,738**	9,615,969	8,129,268
Loans and advances to customers	**3,897**	**–**	1,687	1,332
Prepayments, accrued income and other assets	**2,032,178**	**575,238**	3,324,487	689,693
Liabilities				
Deposits by banks	**21,753,887**	**12,903,121**	25,679,501	25,679,501
Customer accounts	**944,371**	**348,274**	897,583	897,583
Financial liabilities designated at fair value	**1,145,858**	**–**	357,612	–
Derivatives	**5,429,591**	**4,442,361**	4,880,572	2,871,349
Accruals, deferred income and other liabilities	**1,021,460**	**205,637**	2,335,082	203,566
Off-balance sheet				
Guarantees	**4,021,315**	**4,021,315**	3,915,167	3,326,016
Documentary credit and short-term trade-related transactions	**–**	**–**	560,387	–

	For the year ended	
	31 Dec 2022	31 Dec 2021
	AED000	AED000
Income Statement		
Interest income	**107,092**	15,461
Interest expense	**281,291**	50,128
Fee income	**128,086**	178,268
Fee expense	**77,424**	54,392
Other operating income	**285,221**	261,280
General and administrative expenses	**811,394**	652,968

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

Transactions with HSBC Bank Middle East Limited and its subsidiaries

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

	2022		2021	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	AED000	**AED000**	AED000	AED000
Assets				
Derivatives	**507,161**	**334,738**	97,827	64,255
Loans and advances to banks	**2,345,353**	**709,989**	2,381,041	451,543
Loans and advances to customers	**3,897**	**–**	1,687	1,332
Prepayments, accrued income and other assets	**265,364**	**265,364**	235,674	235,674
Liabilities				
Deposits by banks	**11,582,569**	**5,122,788**	11,962,214	11,940,005
Customer accounts	**130,498**	**44,316**	131,536	129,964
Derivatives	**57,254**	**52,766**	214,656	17,156
Accruals, deferred income and other liabilities	**41,857**	**11,685**	10,393	6,104
Off-balance sheet				
Guarantees	**81,755**	**81,755**	75,837	75,837
Documentary credit and short-term trade-related transactions	**624,325**	**–**	179,953	–

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

33 Events after the balance sheet date

Approval of accounts

These accounts were approved by management on 22 March 2023 and authorised for issue.

Additional information

This section includes information that is required to be disclosed as part of our regulatory reporting obligations or that is relevant to a complete understanding of the Bank's *Annual Report and Accounts 2022* and is provided in accordance with certain best practice disclosure principles. In particular, it provides further information on the Bank's current top and emerging risks, liquidity and funding ratios, capital requirements and structure, ESG and corporate governance framework. The information in this section is not audited.

Top and emerging risks

Our current top and emerging risks are as follows.

Externally driven

Geopolitical risks and Macroeconomic risks

The Russia-Ukraine war has had far-reaching geopolitical and economic implications. HSBC Group, including the Bank, is monitoring the direct and indirect impacts of the war, and continues to respond to the extensive sanctions and trade restrictions that have been imposed. Heightened geopolitical tensions, alongside other factors, have also disrupted supply chains globally. Inflation, rising interest rates, and slower economic activity may prompt a global recession that would affect our credit portfolio. While the majority of the GCC markets are benefiting from improved financials due to the rise in energy prices, energy importers across the region face twin shock from higher energy and commodity prices. The macroeconomic challenges and second order impacts from geopolitical events remain uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates. To help mitigate this risk, model outputs and management adjustments are closely monitored and independently reviewed for reliability and appropriateness.

Environmental, social and governance ('ESG') risks

The Bank is subject to financial and non-financial risks associated with ESG-related matters. Our current areas of focus are climate risk, greenwashing risk and sustainability of our supply chain. These can impact us both directly and indirectly through our business activities and relationships. We continue to develop our approach and deepen our understanding of the drivers of climate risk. A dedicated Climate Risk Oversight Forum is responsible for shaping and overseeing our approach and providing support in managing climate risk. Our climate risk programme continues to support the development of our climate risk management capabilities across four key pillars: governance and risk appetite, risk management, stress testing and scenario analysis, and disclosures. We are also enhancing our approach to greenwashing risk management across product, client and firm channels. HSBC Group has published updated policies for Energy, Thermal Coal and Third Party Suppliers which set out our sustainability priorities.

Financial Crime risk environment

The financial crime threats we face have continued to evolve, often in tandem with broader geopolitical, socioeconomic and technological shifts across our markets. The bank will continue to apply the HSBC Group policies and comply with the applicable laws, rules and regulations that require certain enhanced measures to be applied on customers residing or incorporated in a country on the Financial Action Task Force ('FATF') Grey list. HSBC Group is monitoring the direct and indirect impacts of the Russia-Ukraine war on the markets, and using its sanctions compliance capabilities to respond to the new sanctions regulations, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain of the sanctions. We are strengthening and investing in our fraud and surveillance controls, to introduce next generation capabilities to protect both customers and the Bank.

Evolving regulatory environment risk

The Bank keeps abreast of the emerging regulatory compliance and conduct agenda, which currently includes, but is not limited to: ESG matters; operational resilience; how digital and technology changes, including payments, are impacting financial institutions; how we are ensuring good customer outcomes, including addressing customer vulnerabilities; regulatory reporting; and employee compliance. We monitor regulatory developments closely and engage with regulators to help ensure new regulatory requirements are implemented effectively and in a timely way.

Cyber threat and unauthorised access to systems

Together with other organisations, we continue to operate in an increasingly hostile cyber threat environment. This requires ongoing investment in business and technical controls to defend against these threats, including potential unauthorised access to customer accounts, attacks on our systems, and attacks on our third-party suppliers. We continue to monitor ongoing geopolitical events and changes to the threat landscape. We operate a continuous improvement programme to protect our technology operations, and to counter a fast evolving cyber threat environment.

Digitisation and technological advance risk

Developments in technology and changes in regulations have enabled new entrants to the banking industry and new products and services offered by competitors. This challenges us to continue to innovate to take advantage of new digital capabilities to best serve our customers, and adapt our products to attract and retain customers and employee talent.

Internally driven

IT systems infrastructure, resilience and digitisation

The Bank is committed to investing in the reliability and resilience of our IT systems supporting critical processes. We continue to invest in transforming how software solutions are developed, delivered and maintained. We concentrate on improving system resilience and service continuity testing. We continue to ensure security is built into our software development life cycle and improve our testing processes and tools. We continue to upgrade many of our IT systems, simplify our service provision and replace older IT infrastructure and applications. We are executing on planned initiatives to drive digital adoption and reduce manual transactions and are increasing our investment in technology to drive improved customer experience and operational efficiency.

Data risk

We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. We need to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data. Through our global data management framework, we proactively monitor the quality, availability and security of data that supports our customers and internal processes. We protect customer data via our data privacy framework, which establishes practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations. We have made improvements to our data policies and are implementing an updated control framework to enhance the end-to-end management of data risk. We educate our employees on data risk and data management and have delivered global mandatory training on the importance of protecting data and managing data appropriately.

Risks arising from the receipt of services from third parties

The Bank uses third parties to provide a range of goods and services. It is critical that we ensure we have appropriate risk management policies, processes and practices over the selection, governance and oversight of third parties and their supply chain, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations. We have enhanced our control framework for external supplier arrangements to ensure the risks associated with third party arrangements are understood and managed effectively by our global businesses, global functions and regions. We have applied the same control standards to intragroup arrangements as we have for external third party arrangements to ensure we are managing them effectively. We are implementing the changes required by the new global third-party risk policy to comply with new regulations as defined by our regulators.

Change execution risk

The Bank's success in delivering our strategic priorities and continuing to address regulatory change and other top and emerging risks is dependent on the effective and safe delivery of change across the Bank. We continue to work to strengthen our change management practices to deliver sustainable change. We have continued our increased investment in strategic change to support the delivery of our strategic priorities and regulatory commitments. This requires change to be executed safely and efficiently. Change execution risk was added to the Group's risk taxonomy and control library in 2022, to ensure that the risk is well defined, managed, reported and overseen in the same way as HSBC's other material risks.

Model Risk

The Bank uses models in both financial and non-financial contexts, as well as in a range of business applications such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Assessing model performance is a continuous undertaking. Models can need redevelopment as market conditions change. Significant increases in global inflation and interest rates have impacted the reliability and accuracy of both credit and market risk models. The Model Risk Management team, including the Model Risk Steward aims to provide strong and effective review and challenge of any future redevelopment of these models. We updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management.

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

The Bank's success in delivering our strategic priorities and managing the regulatory environment proactively depends on the development and retention of our leadership and high-performing employees while managing increasing workforce nationalization requirements for banks. A very competitive employment market will continue to test our ability to attract and retain talent. Changed working arrangements, local Covid-19 restrictions and health concerns during the pandemic have also impacted on employee mental health and well-being. We will continue to invest in recruitment and retention of local nationals. Our Future Skills curriculum helps provide critical skills that will enable employees and the Bank to be successful in the future. We continue to develop succession plans for key management roles, with actions agreed and reviewed on a regular basis by the HBME Board.

Liquidity and funding ratios

Liquidity coverage ratio ('LCR')

LCR

	2022	2021
	%	%
31 December	**294**	210

Net stable funding ratio ('NSFR')

NSFR

	2022	2021
	%	%
31 December	**161**	146

Capital requirement

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

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

The Bank's regulatory capital adequacy ratio is set by the CBUAE at a minimum level of 13.00% (2021: 13.00%).

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

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

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

Capital structure at 31 December

	2022	2021
	AED000	AED000
Composition of regulatory capital		
Common Equity Tier 1 capital	**13,263,903**	13,920,160
Tier 2 capital	**812,945**	852,347
Total regulatory capital	**14,076,848**	14,772,507
Risk-weighted assets		
Credit and counterparty risk	**65,035,609**	68,187,740
Market risk	**5,546,066**	8,559,429
Operational risk	**8,534,119**	8,540,678
Total	**79,115,794**	85,287,847
Common Equity Tier 1 ratio (%)	**16.77**	16.32
Total Capital Ratio (%)	**17.79**	17.32

Environmental, social and governance review

Our ESG review sets out our approach to taking care of our environment, customers, employees and governance. It also explains how we aim to achieve our purpose and deliver our strategy in a way that is sustainable and how we build strong relationships with all of our stakeholders.

ENVIRONMENTAL

We are accelerating our solutions to the climate crisis and supporting the transition of industries to a net zero future, moving to net zero ourselves, as we help our customers do so too.

Transition to net zero

Our approach to the transition

One of the Group's strategic pillars is to support the transition to a net zero global economy. The Group's ambition is to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels.

The transition to net zero is one of the biggest challenges for our generation. Success will require governments, customers and finance providers to work together. The Group's global footprint means that many of its clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that the Group's transition will be challenging but is an opportunity to make an impact.

The Group has committed to publish its own bank-wide net zero transition plan in 2023. This plan will bring together the Group's climate strategy, science-based targets, and how it plans to embed this into the processes, policies, governance and capabilities. It will outline, in one place, not only the Group's commitments, targets and approach to net zero across the sectors and markets served, but how Group is transforming the organisation to embed net zero and finance the transition. The Group's approach to nature and enabling a just and resilient transition will also be incorporated into the Net Zero Transition plan.

The Group recognises that to achieve its climate ambition it needs to be transparent on the opportunities, challenges, related risks and progress it makes. To deliver on the ambition requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources and skills, and develop its business management process to integrate climate impacts. Until systems, processes, controls and governance are enhanced, certain aspects of the Group's reporting will rely on manual sourcing and categorisation of data. In 2023, the Group will continue to review its approach to disclosures. Reporting will need to evolve to keep pace with market developments.

Supporting our customers through transition

We understand that financial institutions have a critical role to play in achieving the transition to a net zero global economy. The most significant contribution we can make is by mobilising finance to support our portfolio of customers in their transition to decarbonise.

On the basis of the Group's commitment to align our ambition with the Paris Agreement, the Group aims to provide and facilitate between AED 2.7 trillion and AED 3.6 trillion in sustainable finance and investment by 2030 to support customers in their transition to lower carbon emissions and a more sustainable future.

Sustainable Finance

The Bank provides lending for specific sustainable and transition finance activities. Products include project finance (e.g. financing of renewable infrastructure projects), as well as green, social and sustainability linked loans. Our cumulative financing is almost AED 16.3 billion at the end of 2022, as compared to AED 10.3 billion in 2021.

In addition, key highlights in 2022 included landmark sustainability-linked loans the Bank helped structure for Etihad Airways.

We helped Etihad Airways raise AED 4.4 billion with the first sustainability-linked loan in the global aviation industry. We held joint ESG structuring and coordinator roles, as well as being joint book runner and mandated lead arranger.

HSBC also has successfully offered a guarantee to a logistics company for fuel supply and related services to the UN peacekeeping missions in Africa; as well as issuing a performance bond issuance towards construction of an 800MW Solar Power Plant.

For our retail banking customers, in 2021 the Bank introduced a range of Sustainable Finance lending products including personal loans, providing local interest rates in the UAE for solar panels to be retrofitted on to residential properties. The Bank also offer local rates on our vehicle loans for Electric and Hybrid Vehicles to encourage customers to reduce their driving emissions. Further, we have partnered with Sustainable City to give residents preferential rates on their sustainable housing development and we are looking to enhance this initiative by partnering with other developers in the UAE. With this range of products available, we have seen increase in our Sustainable Finance lending balances during 2022. Aside from lending, we have partnered with MasterCard's Priceless Planet Coalition to help restore the UAE’s mangrove forests, customers can now donate their credit card reward points to plant and maintain mangroves in the UAE, a vital part of the coastal ecosystem for wildlife as well as helping to sequester carbon. Additionally, we now plant a tree for every Personal Loan issued in the UAE and have planted more than 4,500 trees as part of this initiative.

The Bank provides advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social and sustainable bonds and sukuk, transition bonds and sukuk, finance advisory mandates (including those covering debt and equity capital markets). The Bank's cumulative facilitation is almost AED 2.8 billion at the end of 2022, increasing from AED 1.7 billion at the end of 2021.

Our net zero policies

In 2022, the Group reviewed and updated their financing and investment policies critical to achieving our net zero ambition. In December, the Group published an updated energy policy, covering the oil and gas, power and utilities and hydrogen sectors. The policy seeks to balance three related objectives: driving down global greenhouse gas emissions; enabling an orderly transition that builds resilience in the longer term; and supporting a just and affordable transition. In December, the Group also updated our thermal coal phase-out policy, and committed to not providing new finance or advisory services specifically for new metallurgical coal mines. Our updated energy and thermal coal phase-out policies were drafted in consultation with leading independent scientific and international bodies and investors.

Our approach to our own operations

Part of our ambition to be a net zero bank is to achieve net zero carbon emissions in our operations and supply chain by 2030 or sooner.

Our energy consumption

HSBC has committed to reducing energy consumption by 50% by 2030, against the 2019 baseline. Through energy efficiency measures and portfolio optimization, the UAE’s energy consumption was reduced by 11% in 2022 compared to 2019 (our baseline year). In addition, the UAE’s total carbon emissions from energy in 2022 were 6,371 tonnes, comprising a reduction of 55% compared to 2019. We have made progress in our transition to renewable energy with solar PV panels installed in our flagship Jumeirah branch.

Business travel

The Bank's travel-related CO_2 emissions have reduced by 3% in 2022 against the 2019 baseline. As international travel gradually resumes, we have continued our efforts to reduce air travel through budget, policy and education, taking into consideration the carbon emission impact, and adopting lower carbon options where online meetings are not appropriate. For our business fleet, we continue to pursue the reduction of environmental impacts associated with the vehicles we use and promote the use of electric vehicles wherever possible. Our focus in 2022 has been on reducing company car fleet size and ensuring that the new vehicles we order are fully electric or hybrid wherever possible.

Engaging with our supply chain

Engaging with our suppliers remains a crucial part of our strategy. In 2022, we formalized our supply chain sustainability strategy through updating our Supplier Code of Conduct and developing our sustainable procurement procedures. The new procedure sets out the minimum requirements and pertinent operational information needed to ensure HSBC’s sustainability objectives related to climate change, the environment, human rights and diversity and inclusion are addressed in the way that we operate and conduct business with suppliers. We are also now incorporating carbon emissions related questions in our vendor selection process for new supplier contracts to ensure that sustainability is a key consideration in our commercial decisions.

Our approach to climate risk

Our approach to sustainability policies

The Bank's sustainability risk policies cover agricultural commodities, chemicals, defence, energy, forestry, mining and metals, UNESCO World Heritage Sites and Ramsar-designated wetlands. These policies define our appetite for business in these sectors and seek to encourage customers to meet good international standards of practice. Where we identify activities that could cause material negative impacts, we will only provide finance if we can confirm customers are managing these risks responsibly. Our sustainability policies continue to be aligned with our approach to climate risk, as well as our net zero commitments.

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

HSBC’s Climate Statement in March 2022 committed us to review HSBC’s sustainability-related policies and align these with our Net Zero by 2050 ambition and related 2030 financed emissions targets. As part of this, in December 2022 we published our updated Energy Policy as covered in previous section.

Managing risk for our stakeholders

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

SOCIAL

As part of HSBC Group, we aim to play an active role in opening up a world of opportunity for our customers, colleagues and communities as we bring the benefits of connectivity and global economy to more people around the world.

Customers

Customer satisfaction and feedback

This year we have further enhanced our ability to listen to our customers, by expanding the scope of Net Promoter System (‘NPS’) in the key market of the UAE. We have provided greater focus on measuring our key journeys, through the launch and rollout of Journey NPS (‘jNPS’) surveys. We continue to benchmark our performance using Strategic NPS (‘sNPS’) against our peers, with a ranking of joint 2nd in WPB at full year 2022.

The UAE Customer Experience plan is aligned with the Group, to deliver better experiences through enhanced measurement, end-to-end journey ownership, a focus on driving a customer obsessed culture and simplifying our processes via 'Live Labs'.

In 2022, in pursuit of our goal to put "a bank in our customers' pocket", we focused on five key areas to expand use of our mobile banking app: adding new wealth capabilities to the app; offering customers a global wallet supported by a multi-currency virtual and physical debit card; the ability to convert credit to cash; expanding the currencies available on global money transfers; improving our customer experience. As a result, the proportion of our customers classified as 'Mobile Active' rose to 55% by the end of 2022 from 50% at the start of the year.

We launched important features like Cash Instalment Plan, Mobile Equities, Global Money Card and Servicing features that also continuously made User Interface changes to improve customer experience.

Employees

We aspire to open up a world of opportunity for our colleagues and build an inspiring, dynamic culture where the best want to work.

We value difference and we continue to build an inclusive workforce that is representative of the communities we serve. The Bank consists of 2,689 full-time equivalent employees representing 86 nationalities as at 31 December 2022.

Future of work

The Covid-19 pandemic has accelerated the future of work by enabling us to adapt more hybrid (time split between office and remote locations) working practices. The shift is helping our people achieve a better work life balance whilst keeping our customers at the heart of everything we do. HSBC's Future of Work ('FOW') Programme takes what we have learnt and enhances flexible ways of working that also helps contribute towards productivity, engagement and well-being.

To maintain the momentum, we regularly encourage hybrid initiatives, including e-learning resources, and continuous dialogue between our people leaders and their teams.

Inclusion

Our purpose, 'Opening up a world of opportunity', explains why we exist as an organisation and is the foundation of our diversity and inclusion strategy. Promoting diversity and fostering inclusion contributes to our 'energise for growth' priority. By valuing difference, we can make use of the unique expertise, capabilities, breadth and perspectives of our colleagues to the benefit of our customers. We continue efforts to build more gender-balanced teams. Female employees represent almost 44% of total employees and 35% of senior leaders. (Senior leadership is classified as 0 to 3 in our global career band structure). Initiatives activated in 2020 to support employees with disabilities and to strengthen the ethnic and cultural diversity of our teams continue to drive enhancements and progress toward our inclusion aspirations.

Nationalisation

The Bank is committed to achieve the country's vision of increasing Emiratis in the banking sector in line with the regulatory requirements and to ensure that developmental and growth opportunities are provided to attract, develop and retain the local talent pool. We are focused on evolving our graduate programme to create a sustainable future for fresh talent, as well as inject experienced local talent into our workforce.

Well-being

Employee well-being continues to remain a key priority with focus on a mental, physical, social and financial well-being. In 2022, HSBC was awarded the Parent Friendly Label by the Abu Dhabi Early Childhood Authority and the Best Well-being Programme from the Future Workplace Awards. Key well-being initiatives this year have included; a refresh of our flexible working policy, enhanced mental health coverage under the medical insurance, free onsite health check-ups and breast cancer screening in branch locations in the UAE, and the launch of a women's health programme focusing on the menopause.

Learning and skills development

Developing the skills of our colleagues is critical to energising our organisation and building a dynamic, inclusive culture. Our Future Skills programme helps prepare our people for the changing skills required in the future workplace. We have a growing range of tools and resources to help colleagues take ownership of their development and career. This includes the HSBC University, our My HSBC Career portal which offers career development resources and Degreed, our learning experience platform that is a one stop shop for all learning content and enables employees to own and drive skill development and personal growth. Degreed adoption for the Bank as of 31 December 2022 is 71% with over 2,135 users registered on the platform.

In 2022, a significant focus was to build capability on sustainability for all employees in the Bank and we provided foundational and sector specific knowledge to support our Net Zero and Transition Plans. Foundation modules of the Delivery Net Zero curriculum were assigned to all employees and we achieved a completion rate of 85% as of December 2022.

We have also prioritised leadership capability. For example, the WPB business deployed the 'Top 70' programme which focused on building skills, creating team cohesion and enabling WPB teams to activate their full potential to deliver on the growth strategy.

Employee engagement

Understanding the experience of employees is central to our efforts. Through our employee Snapshot survey, we capture our colleagues' views on topics such as hybrid working and well-being. In 2022, 1,965 colleagues responded to the survey, a participation rate of 71%. The employee engagement score, our headline measure of how employees feel about HSBC was at 75%, an increase of 1 point compared to 2021.

At times our colleagues may need to speak up about behaviours in the workplace. We encourage colleagues to speak to their line manager in the first instance, but recognise that at times people may not feel comfortable speaking up through the usual channels. HSBC Confidential is our global whistleblowing channel, allowing our colleagues past and present to raise concerns confidentially and, if preferred, anonymously.

Communities

Supporting Communities

Community Investment projects

We have been present in the UAE for more than 75 years. We have a long standing commitment to our internal and external stakeholders that we deliver on through our philanthropic activities. In 2022, our charitable giving for the Bank totalled AED 11 million. We focus on the areas of Future Skills (for young adults and entrepreneurs) and in unlocking next-generation climate solutions to accelerate the transition to net zero.

We offer paid volunteering days, and encourage our people to give time, skills and knowledge to causes within their communities. In 2022, our colleagues gave over 45 hours to community activities during work time, and more than 72 hours in their own personal time, for HSBC programmes.

Future Skills and Entrepreneurship

The Group's Future Skills and Entrepreneurship agenda supported 17 projects during 2022. One example of these is the two gold awards winning program, C3 Social Impact Accelerator powered by HSBC, that reached more than 2,500 impact entrepreneurs. This unique accelerator programme supports impact entrepreneurs with innovative concepts that help widen their impact on society and the environment, at the same time enhancing their business growth and financial performance.

Additionally, in collaboration with the Youth Arab Council and the Ministry of Youth in the UAE, we are developing a full, open source, curriculum for teaching Sustainability Core Skills. The aim is to integrate sustainability concepts into the core curriculum of higher education across the Middle East region. This is the first such programme in the region and HSBC is the leading the way of changing the narrative on sustainability education, capability building of students (and educators across public universities) in addition to facilitating youth engagement in green policy development.

Financial Inclusion

In 2022, the Bank finalised the delivery of the Saving for Good initiative in partnership with Injaz Al-Arab. The programme aimed to equip economically vulnerable workers in Bahrain, Kuwait, Qatar and the UAE with financial literacy skills. These individuals and their families are often highly vulnerable to social upheaval and economic shocks such as Covid-19 pandemic.

Climate

The Group's Climate Solutions Partnership ('CSP') is a five-year US$100m philanthropic initiative that aims to identify and remove barriers to scale for climate change solutions. The partnership aims to scale up climate innovation ventures, nature-based solutions ('NbS') and help to transition the energy sector towards renewables in Asia.

In the UAE, we are collaborating with Emirates Nature-WWF, the Environment Agency in Abu Dhabi and the International Centre for Biosaline Agriculture on a project that aims to provide a science-based innovative approach to strengthen synergies between coastal ecosystems, including mangroves, seagrasses, saltmarshes' conservation and restoration with climate action. It is a multi-year commitment of AED 15.4 million exploring commercial and investable opportunities based on nature, climate mitigation and benefits for people's resilience (with a focus on food security and innovation, recreation & ecotourism). In March 2022, the Umm al Quwain Municipality became an additional implementing partner of the project as part of the launch of the Sustainable Blue Economy Strategy for the Emirate. During a high-level meet at COP27 in Sharm El-Sheikh, a collaboration agreement was signed between the UAE Ministry of Climate Change and Environment ('MoCCAE'), the Environment Agency in Abu Dhabi and Emirates Nature-WWF within the framework of this project. The collaboration showcases the UAE's commitment to scaling up NbS as a key pillar to tackling climate change and nature loss.

The Bank continued to be involved in the climate innovation component of the CSP, by selecting the best innovative ventures and supporting them using WWF's purpose-built platform, Impactio. In 2022, we have supported in two challenges focused on decarbonisation of the built environment and fashion supply chains.

Finally, during COP27, Emirates Nature-WWF launched the first UAE tailored alliance for climate action, UAE Alliance for Climate Action, where HSBC UAE is the first founding donor (and only one at the time of the launch). This is a flagship project for COP28 and beyond, as it will be a key driver of the Climate-Responsible Companies Pledge launched MoCCAE by providing capacity-building and tools to implement and achieve net-zero targets in collaboration with the Alliances for Climate Action, globally led by WWF.

GOVERNANCE

We remain committed to high standards of governance and we recognise our contribution to building healthy and sustainable societies.

How ESG is governed

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

Our respect for human rights

In the UAE, we trained more than 100 front-line staff in human rights issues, and incorporated a questionnaire into our annual credit reviews for customers in seven sectors considered higher risk as there is limited data available to assess the level of human rights risk related to our customers. Building on the client due diligence project initiated in the UAE in 2018, in 2022, the country was selected as one of the four markets included in the newly launched pilots with a focus on Commercial Banking clients, aimed at developing additional approaches to due diligence on human rights that could compliment existing arrangements.

Conduct: Our Product responsibilities

Our conduct approach guides us to do the right thing and to focus on the impact we have on our customers and the financial markets in which we operate.

We are committed to providing customers with products and services that offer a fair exchange of value and meet their financial needs. Good conduct at HSBC means we service our customers ongoing needs and will put it right if we make a mistake.

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

Safeguarding data

We are committed to protecting and respecting the data we hold and process, in accordance with the laws and regulations of the geographies in which we operate. Our Group-wide privacy policy and principles aim to provide a consistent global approach to managing data privacy risk, and must be applied by all of our global businesses and functions.

We conduct regular employee training and awareness sessions on data privacy and security issues throughout the year, including global mandatory training for all our colleagues, along with additional training sessions, where required, to keep abreast of new developments in this space.

We provide transparency to our customers and stakeholders on how we collect, use and manage their personal data, and their associated rights. Where relevant, we work closely with third parties to help ensure adequate protections are provided, in line with our data privacy policy and as required under data privacy law.

We continue to implement industry practices for data privacy and security. Our privacy teams work closely with our data protection officers and industry bodies to drive the design, implementation and monitoring of privacy solutions. We conduct regular reviews and privacy risk assessments, and continue to develop solutions to strengthen our data privacy controls. We continue to enhance our internal data privacy tools to improve accountability for data privacy. We have procedures to articulate the actions needed to deal with data privacy considerations. These include notifying regulators, customers or other data subjects, as required under applicable privacy laws and regulations, in the event of a reportable incident occurring.

Our approach with our suppliers

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

Financial crime risk management

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

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

Corporate governance report

Contents

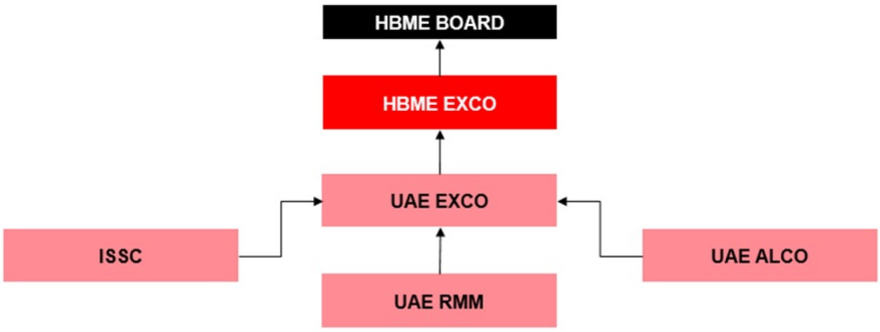
1 Overview

The corporate governance report provides details on our Executive Committee ('EXCO'), which is the Board equivalent, senior management, and the Board committees, and outlines key aspects of our approach to corporate governance. The Bank's Corporate Governance Framework and the supporting Corporate Governance Policy are designed to ensure that the Bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance.

The Bank continues to enhance its corporate governance practices and procedures to ensure that the operations are well managed, with effective oversight and control.

2 Organisational and governance structure

The Bank's organisational and governance structure as at 31 December 2022 is provided below:



Certain regulatory exceptions are applicable to the Bank as being a branch of a foreign bank.

3 The Board and Executive Committee ('EXCO')

The EXCO is responsible for the exercise of all of the powers, authorities and discretions of the Board so far as they concern the management, operations and day-to-day running of the Bank. The EXCO aims to promote long-term success, contribute sustainable value to the HSBC Group and promote a culture of openness and debate. The EXCO is comprised of diverse and high-calibre individuals with experience globally and in the Group's key markets.

Diversity and inclusion are embedded within the culture of HSBC. The EXCO remains committed to an inclusive culture and recognises the importance of gender, social and ethnic diversity and the benefits different perspectives bring to management. Details on the composition of the EXCO is covered in the following sections.

Relationship between Board and senior management

The HBME Board delegates day-to-day management of the business and implementation of strategy to the UAE Chief Executive Officer. The UAE Chief Executive Officer is supported in his management of the Bank by recommendations and advice from the EXCO, an executive forum comprising members of senior management that include heads of businesses and functions.

Some of the matters of the Bank are specifically reserved for the HBME Board approval such as approval of the Bank's strategy and annual report; appointment of the UAE Chief Executive Officer; all material HR policies and procedures; and changes to any key policies and procedures relating to the monitoring and exercising control over operations including internal audit, risk and compliance. The HBME Board also oversees the UAE Shariah business which includes receiving regular updates on performance and any key risks; meeting at least once every year with the Shariah Scholars; and reviewing new Shariah Products.

Composition of the UAE EXCO

Membership of the EXCO is determined and maintained by the Bank's Chief Executive at his discretion. The EXCO comprises of the following members:

- Chief Executive Officer, UAE – Chair
- Deputy Chief Executive Officer and Chief Operating Officer, UAE – Co-Chair
- Head of Commercial Banking, UAE
- Head of Wealth and Personal Banking, UAE
- Head of Global Banking, UAE
- Head of Markets and Security Services, UAE
- Chief Financial Officer, UAE
- Chief Risk Officer, UAE
- Chief Compliance Officer, UAE
- Head of Islamic Finance
- Head of Audit, UAE

Above list of EXCO members does not include standing attendees as they are not considered as senior managers as per the regulations.

At 31 December 2022, the EXCO had 18% female EXCO representation, with 2 female EXCO members out of 11.

Governance and oversight

The Bank has a comprehensive range of policies and procedures in place designed to help ensure that its operations are well managed, with effective oversight and controls. The EXCO is fully committed to high standards of corporate governance and also compliance with the UAE Corporate Governance Regulations and Standards for the Banks issued by the Central Bank of the UAE ('CBUAE').

The UAE Chief Executive Officer, supported by the EXCO, is responsible among other matters for promoting the Bank's long-term success and delivering sustainable value to the holding company, setting the Bank's risk appetite and monitoring the risk profile, and managing capital and operating plans for achieving strategic objectives. The EXCO also demonstrates ongoing compliance with all relevant regulations issued by the CBUAE, annual review and changes to the Bank's Corporate Governance Framework and managing any change required by the regulation or strategic direction.

Furthermore, the EXCO strengthens decision-making by ensuring collective input to decisions whilst also supporting individuals in discharging their responsibilities; shapes the strategic direction of the Bank's business including Islamic finance; identifies enablers and any relevant functional support required; and drives execution of associated plans in fulfilment of Financial Resourcing Plans and other Country Strategic Objectives.

EXCO attendance in 2022

The table below sets out the attendance at EXCO meetings in 2022:

Membership		Meeting attendance in 2022
Abdulfattah Sharaf	Chief Executive Officer, UAE	6/6
Simon Calder	Deputy Chief Executive Officer and Chief Operating Officer, UAE	5/6
Daniel Robinson	Head of Wealth and Personal Banking, UAE	5/6
Nabeel Alblooshi	Managing Director, Head of Corporate Sales, MENAT, CEO HMES	6/6
Mohammed Al Marzouqi	Managing Director, Head of Global Banking, UAE	3/6
Richard Van Der Meer	Head of Corporate and Commercial Banking, UAE	5/6
Ibrahim Hayatuddini	Chief Financial Officer, UAE and MENAT Head of Strategic Planning and Stress Testing	5/6
Reem Albanna	Chief Risk Officer, UAE and International Countries	5/6
Mohsin Khan	Head of Audit, UAE and Deputy Head of Audit MENAT	5/6
Sarah Delbecq	Chief Compliance Officer, UAE	5/6
Mohammed Dawood	Head of Islamic Finance	5/6

Other Senior management committees

The EXCO delegates oversight of certain risk, liquidity and capital, and governance matters to its sub-committees. In addition to the EXCO, there are other senior management committees for governance which are the Risk Management Meeting, the Asset, Liability, and Capital Management Committee and Internal Shariah Supervision Committee.

Risk Management Meeting ('UAE RMM')

The UAE RMM is the formal governance meeting of the UAE EXCO established to provide recommendations and advice to the UAE Chief Risk Officer ('CRO') on enterprise-wide management of all risks, including key policies and frameworks of the three lines of defense for the management of risk within the UAE. The UAE RMM serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives, including the management of all financial crime risks.

The UAE CRO has been granted authority and accountability by the UAE Chief Executive Officer to take decisions related to matters considered at the UAE RMM, except where decision-making authority is the responsibility of another member of the UAE EXCO (e.g., finance-related decisions taken by the UAE CFO). The RMM consists of Reem Al Banna (Chief Risk Officer, UAE), Abdulfattah Sharaf (Chief Executive Officer, UAE), Simon Calder (Deputy Chief Executive Officer & Chief Operating Officer, UAE) and other senior executives of the Bank most of whom are members of the Executive Committee. The Risk Management Meeting held seven times in 2022.

Asset, Liability, and Capital Management Committee ('UAE ALCO')

The UAE Asset, Liability and Capital Management Committee ('UAE ALCO') is chaired by the Chief Financial Officer and is an advisory committee to provide recommendations and advice to support the Chief Financial Officer's individual accountability for the efficient management of the Bank's assets, liabilities, and capital within the constraints of liquidity and funding ratios, capital ratios, and key balance sheet risks such as interest rate risk, market risk and equity risk.

The UAE ALCO consists of Ibrahim Hayatuddini (Chief Financial Officer, UAE), Abdulfattah Sharaf (Chief Executive Officer, UAE), Simon Calder (Deputy Chief Executive Officer & Chief Operating Officer, UAE), the Regional Treasurer, MENAT, the Regional Head of Capital Management, MENAT, the Head of Markets Treasury, MENAT, and other senior executives of the Bank most of whom are members of the UAE EXCO. The Committee met six times in 2022.

Internal Shariah Supervision Committee ('ISSC')

The ISSC plays a fundamental role in ensuring adherence to the tenets of Shariah. To that effect, the primary role of the ISSC is to make decisions on Shariah matters in an independent and objective manner including advise to management on Shariah matters. The ISSC is also responsible for the review and endorsement of Shariah policies, compliance with the resolutions and standards issued by the CBUAE and Higher Shariah Authority, and performs an oversight role on Shariah related business operations and activities through the Shariah reviews of Internal Shariah Control Section.

The ISSC consists of Professor Aznan Bin Hasan (the chairman of the ISSC), Mohamed Ali Ibrahim Elgari Bineid (the deputy chairman of the ISSC), Dr. Salim Ali Salim Ali Al-Ali (Member) and Dr. Mousa Adam Eisa (Member). The ISSC met four times in 2022.

4 Senior management

Senior management supports the Chief Executive Officer, UAE in the day-to-day management of the business and the implementation of the Bank's strategy.

Abdulfattah Sharaf

Chief Executive Officer, UAE

Skills and experience: Abdulfattah is a seasoned banker with over 27 years' experience in the financial sector in the UAE. He held leadership positions with HSBC for 14 years, and prior to joining he was with Emirates NBD for 13 years.

He is a graduate of the University of Denver, Colorado USA Bachelor of Arts – Political Science with a minor in Special Education.

Simon Calder

Deputy Chief Executive Officer and Chief Operating Officer, UAE

Skills and experience: Simon held senior management roles in the banking sector internationally with expertise in the UK, Australia, Hong Kong and the USA. His experience in banking roles include corporate strategy within commercial banking, trade finance, portfolio management, and regulatory engagement.

He is a Fellow of the Associate of Corporate Treasurers and graduated with an MA in Economics from Rhodes University.

Daniel Robinson

Head of Wealth and Personal Banking, UAE

Skills and experience: Daniel has over 20 years' experience in financial services, and assumed responsibility of leadership positions across the UK and Middle East. He is passionate about creating an inclusive environment at work and is the Co-Chair of Balance – HSBC's gender focused Diversity and Inclusion committee across the region.

He holds an Engineering degree from Oxford Brookes University.

Nabeel Albloushi	Mohammed Al Marzouqi	Richard Van Der Meer
Managing Director, Head of Corporate Sales, MENAT, CEO HMES **Skills and experience:** Nabeel has over 25 years of experience in Banking and financial services, with specialisation in commercial global banking and equity, and leading business relations. He holds a Masters of International Business degree from the University of Wollongong.	**Managing Director, Head of Global Banking, UAE** **Skills and experience:** Mohammed has spent his entire career with HSBC since his joining in 2002 and developed extensive local and regional knowledge covering large corporate and Government related entities. Mohammed holds a Bachelor Degree in Accounting from Higher Colleges of Technology in Dubai. He also completed H.H. Sheikh Mohammed Bin Rashid Leadership program for future leaders and is a Certified Management Accountant.	**Head of Corporate and Commercial Banking, UAE** **Skills and experience:** Richard has over 21 years of experience in the banking industry with HSBC internationally where he held multiple senior roles across Europe, Middle East, USA and Asia. He holds a BCom in Economics and Business Studies from the University of Edinburgh.
Ibrahim Hayatuddini	**Reem Albanna**	**Mohsin Khan**
Chief Financial Officer UAE, and MENAT Head of Strategic Planning & Stress Testing **Skills and experience:** Ibrahim has over 15 years of experience in the financial services sector with senior roles in the UK and Middle East. His expertise lies in supporting businesses through times of change and stress in highly complex environments, with high regulatory scrutiny and investor focus. Ibrahim is a Chartered Certified Accountant and holds a BSc in Financial Economics from the University of Essex. He also holds a certificate in Fintech from the University of Oxford's Said Business School.	**Chief Risk Officer, UAE and International Countries** **Skills and experience:** With over 15 years of experience in commercial and Islamic banking, Reem served a variety of roles in risk assessment such as risk officer and wholesale credit manager. Her deep knowledge within the banking industry is focused on wholesale businesses covering SMEs, MM, Large Corporate, Intl Cos, GREs, governments and financial institutions. She holds an MBA from the London Business School and the UAE GLP Program certification.	**Head of Audit, UAE & Deputy Head of Audit MENAT** **Skills and experience:** Mohsin has over 16 years of experience as an auditor in the banking industry. Mohsin holds a First-Class Honors, BSc from University of London in Computer Sciences, and is a Fellow of the Institute of Chartered Accountants in England and Wales.
Sarah Delbecq	**Mohammed Dawood**	
Chief Compliance Officer **Skills and Experience:** Sarah has over 14 years of Compliance experience in the banking sector. Her experience ranges from boutique Investment Banking through to large international banking institutions. Sarah holds a Bachelor's Degree in Business Administration & Hospitality from Oxford Brookes University issued in 2001. She is certified by the Association of Certified Anti-Money Laundering (CAMs) and also holds the ICA International Diploma in Compliance, CISI International Investment Management Certificates, CISI DIFC Rules and Regulations Certificate and the CISI FSA Rules and Regulations Certificate, in addition to other industry related qualifications.	**Head of Islamic Finance, MENAT** **Skills and Experience:** Mohammed has more than 23 years of experience in the field of Islamic banking and finance focusing on the wholesale banking and markets. All of this Islamic finance experience has been with HSBC. Mohammed has a BA in Economics & History from the School of Oriental & Africa Studies (SOAS), which is part of University of London.	

Appointment process of the senior management

The UAE Human Resources Nomination Committee ('Nomination Committee') oversees the selection and appointment of the Bank's senior management. Certain senior management roles are subject to the approval of the CBUAE. Approval of the Nomination Committee is required prior to seeking the authorisation from the CBUAE for senior management appointment.

The nomination committee consists of Abdulfattah Sharaf (Chief Executive Officer, UAE and Head of International), Simon Calder (Deputy Chief Executive Officer & Chief Operating Officer, UAE), Fatema Alafeefi (Head of HR, UAE) and Reem Albanna (Chief Risk Officer, UAE).

5 Remuneration

Remuneration principles

The Bank's performance and pay strategy is underpinned by HSBC Group's Remuneration Strategy and principles that aims to competitively reward long-term sustainable performance. We aim to do this by attracting, motivating and retaining the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience. The strategy supports the long-term interests of our stakeholders, which includes the customers and the community we serve, our parent company and our regulators.

Overview of remuneration structure for employees

Total compensation consists of different key elements i.e. fixed pay, benefits, variable pay and deferral. The purpose of different elements of compensation is to attract and retain employees by paying market competitive pay for the skills, responsibilities and experience, to support the physical, mental and financial health of a diverse workforce in accordance with local market practice and to incentivise based on performance on annual financial and non-financial measures consistent with the medium- and long-term strategy, stakeholder interests and values aligned behaviour.

Governance framework and oversight

The EXCO and senior management is responsible for setting the overarching principles, parameters and governance of the Bank's remuneration framework. They regularly review the framework to ensure it supports the Bank's purpose, values, culture and strategy, as well as promoting sound risk management. Furthermore, they also review the framework to satisfy themselves that it complies with the regulatory requirements.

6 Assurance statement by the management

Compliance with CBUAE corporate governance expectations

CBUAE Circular 83/2019 Standards states in article 13, paragraph 2: 'A Bank must publish an annual corporate governance-specific and comprehensive statement in a clearly identifiable section of its annual report'.

To comply with this requirement, HSBC UAE established a process to review and confirm that, in all material respects, the internal policies established to ensure compliance with the Central Bank's Regulations and Standards on Corporate Governance, Risk Management, Internal Controls, Compliance, Internal Audit, Financial Reporting, External Audit and Outsourcing and were reviewed within the last year.

Attestation of compliance with the above is derived from three principle areas:

1. Annual review of policies and procedures

Under our Risk Management Framework ('RMF'), our policies and procedures are reviewed at least on an annual basis to ensure that they remain up-to-date, accurate, relevant and that local policies exist to supplement global policies, where required, to ensure compliance with local regulations.

2. Active risk management and three lines of defence

Issues can be identified through control owners and operators within the first line through regular control testing, control monitoring, internal or external triggers, and through read across activity from reports arising in other areas of the HSBC Group. This first line activity is complemented through the Risk Stewards, whom challenge risk owners regarding risk assessments, help to set and shape policy responses and provide subject matter expertise to support regulatory engagements. Internal audit provides a third line of defence through direct audits of regulatory compliance, Global audits which include UAE within scope and through provision of global reports for management read across.

Any issues arising from these three activities are captured systematically through internal systems that capture and record these items. These systems have been reviewed to identify any areas of material breach in the specified Central Bank regulations above.

3. Regulatory Development Processes

An 'Open Regulations' mechanism exists to capture any new regulations and track progress on implementation of regulatory changes. To the extent that there are any changes to existing regulations covered by the scope of the Corporate Governance Requirements, these changes will be assessed, implemented and tracked through this established process. The Open Regulations tracker also captures known regulatory breaches, associated actions and timelines. Where there is inability to meet specified regulatory deadline, a remediation plan is recorded in system, and governed through the UAE Risk Management Meeting. Throughout the issue lifecycle, oversight, concurrence and approvals are obtained from Risk Stewards, designated management and at the relevant governance forums.

Outcome

Having completed the attestations process, the Bank has not identified any substantive or material deficiencies in compliance with the relevant UAE Central Bank regulations. We note, however, that we are still working to fully comply with the requirements of the Outsourcing Regulations and Standards, which become fully effective from December 2023. Principle actions within this programme of work pertain to the enhancements of our outsourcing register and development of data points which support evaluation of concentration risk across our third party suppliers. These are expected to complete ahead of the regulatory deadlines.

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

Issued on: 18 January 2023

To: Shareholders of HSBC Bank Middle East Limited

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards ('the Regulatory Requirements'), the Internal Shari'ah Supervision Committee of the Institution ('ISSC') presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the Institution for the financial year ended on 31 December 2022 ('Financial Year').

1. Responsibility of the ISSC

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

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

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

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

2. Shari'ah Standards

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

3. Duties Fulfilled by the ISSC During the Financial Year

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

a. Convening 4 meetings during the year.

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

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

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

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

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

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

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

4. Independence of the ISSC

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

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

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

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

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

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

HSBC Bank Middle East Limited

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www.hsbc.ae

HSBC Bank Middle East Limited

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

HSBC Bank Middle East Limited - UAE Operations