

HSBC Bank Middle East Limited - UAE Operations

Pillar 3 Disclosures at 31 December 2022

HSBC Bank Middle East Limited – UAE Operations Pillar III Disclosures For Year Ended 31 December 2022

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Introduction

Legal status and principle activities

HSBC Bank Middle East Limited – United Arab Emirates ('UAE') Operations ('HSBC UAE') 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 license issued by the Dubai Financial Services Authority ('DFSA').

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

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.

Basel III introduction

The Basel III framework is structured around three 'pillars';

- Pillar 1 minimum capital requirements;
- Pillar 2 supervisory review process are complemented by the requirements in; and
- Pillar 3 on market discipline.

The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel III framework and the rules in their jurisdiction, their capital resources, risk exposures and risk management processes, and hence their capital adequacy.

Purpose and Governance

HSBC UAE is regulated by the Central Bank of the UAE ('CBUAE').The disclosures have been prepared in line with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSN/2020/4980 and CBUAE CBUAE/BSN/2021/5508) published in November 2020 and November 21 respectively.

The annual Pillar III report of Bank for the year ended 31 December 2022 comprises detailed information on the underlying drivers of risk-weighted assets (RWA), capital of the Bank, leverage and liquidity. The report should be read in conjunction with the Bank's Audited Financial Statements as at 31 December 2022.

HSBC UAE has operated within a framework of internal controls and procedures for assessing the appropriateness of this disclosure. This Pillar III disclosure have been subject to review from external auditors.

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Overview of risk management, key prudential metrics and RWA (KM1)

	Q4'2022 AED000	Q3'2022 AED000	Q2'2022 AED000	Q1'2022 AED000	Q4'2021 AED000	
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	13,263,903	13,726,585	14,105,379	12,649,911	13,920,160
1a	Fully loaded ECL accounting model	13,263,903	13,726,585	14,105,379	12,647,245	13,784,069
2	Tier 1	13,263,903	13,726,585	14,105,379	12,649,911	13,920,160
2a	Fully loaded ECL accounting model Tier 1 ²	13,263,903	13,726,585	14,105,379	12,647,245	13,784,069
3	Total capital	14,076,848	14,581,560	14,982,319	13,465,171	14,772,507
3a	Fully loaded ECL accounting model total capital ²	14,076,848	14,581,560	14,982,319	13,462,505	14,636,416
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	79,115,793	87,141,808	89,564,479	83,644,634	85,287,846
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	16.77	15.75	15.75	15.12	16.32
5a	Fully loaded ECL accounting model CET1 (%) ²	16.77	15.75	15.75	15.12	16.16
6	Tier 1 ratio (%)	16.77	15.75	15.75	15.12	16.32
6a	Fully loaded ECL accounting model Tier 1 ratio (%) ²	16.77	15.75	15.75	15.12	16.16
7	Total capital ratio (%)	17.79	16.73	16.73	16.10	17.32
7a	Fully loaded ECL accounting model total capital ratio (%) ²	17.79	16.73	16.73	16.09	17.16
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50	2.50	2.50	2.50	2.50
9	Countercyclical buffer requirement (%)	–	–	–	–	–
10	Bank D-SIB additional requirements (%)	–	–	–	–	–
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50	2.50	2.50	2.50	2.50
12	CET1 available after meeting the bank's minimum capital requirements (%)	6.27	5.25	5.25	4.62	5.82
Leverage Ratio						
13	Total leverage ratio measure	159,804,017	159,030,190	170,361,196	169,532,390	169,335,954
14	Leverage ratio (%) (row 2/row 13)	8.30	8.63	8.28	7.46	8.22
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	8.30	8.63	8.28	7.46	8.14
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.30	8.63	8.28	7.46	8.22
ELAR						
21	Total HQLA ³	25,293,917	21,876,749	28,651,363	37,602,005	34,775,606
22	Total liabilities	118,544,192	115,952,535	123,341,490	121,464,895	121,451,021
23	Eligible Liquid Assets Ratio (ELAR) (%)	21.34	18.87	23.23	30.96	28.63
ASRR						
24	Total available stable funding	97,144,176	91,309,929	96,224,039	96,921,769	90,804,223
25	Total Advances	68,939,311	65,012,526	72,514,636	64,423,629	60,219,535
26	Advances to Stable Resources Ratio (%)	70.97	71.20	75.36	66.47	66.32

1 For Q4 2022, no transitional arrangement has been applied.

2 The fully loaded ECL accounting capital balances for Q4 21 and Q1 22 have been restated to include CET 1, Tier 1 and Total Capital balances in addition to the ECL.

3 Total HQLA balances have been restated from Q4 21 to Q3 22 to report full HQLA balance which now includes Local government, UAE public sector and foreign sovereign debt instruments and securities.

Overview of Risk Management (OVA)

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

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

Our risk management framework

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

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	There are processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
	Enterprise-wide risk management tools	
Internal controls	Active risk management: identification/assessment, monitoring, management and reporting	
	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') and UAE Financial Crime Risk Management Committee ('FCRMC') monitors all categories of risk, receives reports on actual performance and emerging issues, determines action to be taken and reviews the efficacy of the Bank's risk management framework.

The UAE Chief Risk Officer ('CRO') chairs the UAE RMM of the Executive Committee. The UAE RMM is a formal risk governance committee where members of the Executive Committee make recommendations and provide advice to the UAE CRO to help them carry out their role and responsibilities in relation to enterprise risk oversight over all risks, including compliance. The membership of the Executive Committee ensures that the committee oversees risk management matters across the three lines of defence.

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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 reviews and challenges 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 types of 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. Responsibility for minimising both financial and non-financial risk lies with our people. They are required to manage the risk of the business and operational activities for which they are responsible. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our CRO. Sound non-financial risk management is central to achieving good outcome from our customers. We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on 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:

- Alignment with our strategy, purpose, values, customer needs and HSBC Group Risk Appetite.
- Trends highlighted in other risk reports.
- Communication with risk stewards on the developing risk landscape.
- Strength of our capital, liquidity and balance sheet.
- Compliance with applicable laws and regulations.
- Effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments.
- Functionality, capacity and resilience of available systems to manage risk.
- 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 risk

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

The Bank's current top and emerging risks are described on page 66 of the HSBC UAE *annual report and accounts 2022*.

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

Internal stress tests

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

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

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

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

Recovery and resolution plan

Recovery and resolution plans form part of the integral framework safeguarding the HSBC Group's financial stability. The recovery plan together with stress testing help us understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate risk mitigating action. The Bank remains committed to further developing its recovery and resolution capabilities in line with resolvability assessment framework regulatory requirements.

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.

Overview of risk management, key prudential metrics and RWA (OV1)

	RWA	Minimum capital requirements	RWA	Minimum capital requirements
	2022	2022	2021	2021
	AED000	AED000	AED000	AED000
1 Credit risk (excluding counterparty credit risk)	58,077,339	6,098,121	58,509,389	6,143,486
2 <i>of which: standardised approach (SA)</i>	58,077,339	6,098,121	58,509,389	6,143,486
3 <i>of which: foundation internal ratings-based (F-IRB) approach</i>	—	—	—	—
4 <i>of which: supervisory slotting approach</i>	—	—	—	—
5 <i>of which: advanced internal ratings-based (A-IRB) approach</i>	—	—	—	—
6 Counterparty credit risk (CCR)	5,202,387	546,251	9,678,257	1,016,217
7 <i>of which: standardised approach for counterparty credit risk</i>	5,202,387	546,251	9,678,257	1,016,217
8 <i>of which: Internal Model Method (IMM)</i>	—	—	—	—
9 <i>of which: other CCR</i>	—	—	—	—
10 Credit valuation adjustment (CVA)	1,755,763	184,355	—	—
11 Equity positions under the simple risk weight approach	—	—	—	—
12 Equity investments in funds - look-through approach	—	—	—	—
13 Equity investments in funds - mandate-based approach	—	—	—	—
14 Equity investments in funds - fall-back approach	—	—	—	—
15 Settlement risk	121	13	95	10
16 Securitisation exposures in the banking book	—	—	—	—
17 <i>of which: securitisation internal ratings-based approach (SEC-IRBA)</i>	—	—	—	—
18 <i>of which: securitisation external ratings-based approach (SEC-ERBA)</i>	—	—	—	—
19 <i>of which: securitisation standardised approach (SEC-SA)</i>	—	—	—	—
20 Market risk	5,546,066	582,337	8,559,429	898,740
21 <i>of which: standardised approach (SA)</i>	5,546,066	582,337	8,559,429	898,740
22 <i>of which: internal models approach (IMA)</i>	—	—	—	—
23 Operational risk	8,534,119	896,082	8,540,678	896,771
24 Amounts below thresholds for deduction (subject to 250% risk weight)	—	—	—	—
25 Floor adjustment	—	—	—	—
26 Total (1+6+10+11+12+13+14+15+16+20+23)	79,115,793	8,307,158	85,287,847	8,955,224

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Linkages between financial statements and regulatory exposures (L11)

	2022					
	Carrying values of items:					
	Carrying values as reported in published financial statements AED000	Subject to credit risk framework AED000	Subject to counterparty credit risk framework AED000	Subject to the securitisation framework AED000	Subject to market risk framework AED000	Not subject to capital requirements or subject to deduction from capital AED000
Assets						
Cash and balances at central bank	9,185,600	9,185,600	–	–	–	–
Items in the course of collection from other banks	123,252	123,252	–	–	–	–
Trading portfolio assets	6,559,399	45,931	6,513,468	–	6,513,254	–
Financial assets designated at fair value	73,429	73,429	–	–	–	–
Derivative financial instruments Assets	6,899,854	–	6,899,853	–	–	–
Loans and advances to banks	16,169,142	16,169,142	–	–	–	–
Loans and advances to customers	50,015,493	50,015,493	–	–	–	–
Reverse repurchase agreements and other similar secured lending	22,064,566	–	22,064,566	–	–	–
Available for sale financial investments (Includes FVOCI)	19,677,336	19,677,336	–	–	–	–
Prepayments, accrued income and other assets	3,402,442	3,185,296	217,146	–	–	–
Intangible assets	630,608	–	–	–	–	630,608
Deferred tax assets	534,007	534,007	–	–	–	–
Total Assets	135,335,128	99,009,486	35,695,033	–	6,513,254	630,608
Liabilities						
Deposits from banks	11,712,584	–	–	–	–	11,712,584
Items in the course of collection due to other banks	588,896	–	–	–	–	588,896
Customer accounts	86,036,533	–	–	–	–	86,036,533
Repurchase agreements and other similar secured borrowings	3,429,224	–	–	–	–	3,429,224
Trading portfolio liabilities	1,351,711	–	–	–	1,345,263	6,448
Financial liabilities designated at fair value	3,986,253	–	–	–	–	3,986,253
Derivative financial instruments Liabilities	6,416,727	–	6,416,727	–	–	–
Debt securities in issue	159,647	–	–	–	–	159,647
Accruals, deferred income and other liabilities	4,739,830	–	–	–	–	4,739,830
Current tax liabilities	122,789	–	–	–	–	122,789
Provisions	155,752	–	–	–	–	155,752
Total Liabilities	118,699,946	–	6,416,727	–	1,345,263	110,937,956

Linkages between financial statements and regulatory exposures (L12)

	2022					
	Items subject to:					
	Total AED000	Credit risk framework AED000	Securitisation framework AED000	Counterparty credit risk framework AED000	Market risk framework AED000	
1	Asset carrying value amount under scope of regulatory consolidation (as per template L11)	134,704,521	99,009,486	–	35,695,033	6,513,254
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template L11)	7,761,989	–	–	6,416,727	1,345,263
3	Total net amount under regulatory scope of consolidation	126,942,531	99,009,486	–	29,278,306	5,167,991
4	Off-balance sheet amounts including Derivatives	33,420,788	21,604,289	–	11,816,500	–
5	Differences in valuations	–	–	–	–	–
6	Differences due to different netting rules, other than those already included in row 2	–	–	–	–	–
7	Differences due to consideration of provisions and Interest in suspense	3,571,043	3,571,043	–	–	–
8	Differences due to prudential filters	–	–	–	–	–
9	Exposure amounts considered for regulatory purposes	163,934,362	124,184,817	–	41,094,806	5,167,991

Explanation of difference between accounting and regulatory exposure amount (LIA)

- Off-balance sheet amounts subject to credit risk including undrawn portions of committed facilities, trade finance commitments and guarantees post credit conversion factor ('CCFF'). Further potential future exposures (PFE) are added for counterparty credit risk on derivative exposures.
- Credit risk adjustments, including Expected Credit Loss ('ECL') and interest in suspense (IIS) which are grossed up for regulatory exposures.

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.

Fair value adjustments

Fair value adjustments are adopted when the Bank considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required.

Bid-offer

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

Uncertainty

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

Credit and debit valuation adjustment

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

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The Bank calculates a separate credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA') for each group legal entity, and within each entity for each counterparty to which the entity has exposure. The Bank calculates the credit valuation adjustment by applying the probability of default ('PD') of the counterparty conditional on the non-default of the Bank to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Bank calculates the debit valuation adjustment by applying the PD of the Bank, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Bank and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

Funding fair value adjustment

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

Model limitation

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

Inception profit (Day 1 P&L reserves)

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

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.

Prudent valuation adjustments (PV1)

Prudent value represents a conservative estimate with a 90% degree of certainty of a price that would be received to sell an asset or paid to transfer a liability in orderly transactions occurring between market participants at the balance sheet date. HSBC has documented policies and maintains systems and controls for the calculation of the prudent valuation adjustment ('PVA'). HSBC's methodology addresses fair value uncertainties arising from a number of sources: market price uncertainty, bid-offer uncertainty, model risk, concentration, administrative costs, unearned credit spreads and investing and funding costs.

Prudent valuation adjustments (PV1)

		2022								
		Equity	Interest rates	FX	Credit	Commodities	Total	of which: In the trading book	of which: In the banking book	
		AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	
1	Closeout uncertainty, of which:	–	23,901	1,984	11,651	–	37,536	17,519	20,017	
2	Mid-market value	–	21,075	258	10,612	–	31,945	12,463	19,482	
3	Closeout cost	–	2,826	1,727	1,039	–	5,592	5,056	535	
4	Concentration	–	–	–	–	–	–	–	–	
5	Early termination	–	–	–	–	–	–	–	–	
6	Model risk	–	–	–	–	–	–	–	–	
7	Operational risk	–	2,956	201	1,082	–	4,239	2,237	2,002	
8	Investing and funding costs	–	–	2	–	–	2	2	–	
9	Unearned credit spreads	–	6,265	25	–	–	6,291	6,291	–	
10	Future administrative costs	–	–	–	–	–	–	–	–	
11	Other	–	–	–	–	–	–	–	–	
12	Total adjustment	–	33,122	2,213	12,733	–	48,068	26,049	22,019	
		2021								
1	Closeout uncertainty, of which:	–	34,033	950	20,857	–	55,840	25,429	30,411	
2	Mid-market value	–	31,110	711	20,128	–	51,949	23,091	28,857	
3	Closeout cost	–	2,013	239	729	–	2,981	2,338	643	
4	Concentration	–	911	–	–	–	911	–	911	
5	Early termination	–	–	–	–	–	–	–	–	
6	Model risk	–	–	–	–	–	–	–	–	
7	Operational risk	–	4,400	96	1,921	–	6,418	3,468	2,950	
8	Investing and funding costs	–	–	–	–	–	–	–	–	
9	Unearned credit spreads	–	10,217	16	–	–	10,233	10,233	–	
10	Future administrative costs	–	–	–	–	–	–	–	–	
11	Other	–	–	–	–	–	–	–	–	
12	Total adjustment	–	48,651	1,062	22,778	–	72,491	39,130	33,361	

Note – Bank is not having any exposure to equity or commodity during year 2022 and 2021.

Composition of regulatory capital (CC1)

	2022 AED000	2021 AED000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 capital: instruments and reserves			
1 Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,495,255	4,495,255	Same as (a) from CC2 template
2 Retained earnings	7,353,949	7,807,349	–
3 Accumulated other comprehensive income (and other reserves)	1,990,447	2,088,047	–
4 Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	–	–	–
5 Common share capital issued by third parties (amount allowed in group CET1)	–	–	–
6 Common Equity Tier 1 capital before regulatory deductions	13,839,651	14,390,650	–
Common Equity Tier 1 capital regulatory adjustments			
7 Prudent valuation adjustments	–	–	–
8 Goodwill (net of related tax liability)	–	–	–
9 Other intangibles including mortgage servicing rights (net of related tax liability)	630,608	467,584	–
10 Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	–	19,739	–
11 Cash flow hedge reserve	(48,180)	12,784	–
12 Securitisation gain on sale	–	–	–
13 Gains and losses due to changes in own credit risk on fair valued liabilities	(6,680)	(29,616)	–
14 Defined benefit pension fund net assets	–	–	–
15 Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	–	–	–
16 Reciprocal cross-holdings in CET1, AT1, Tier 2	–	–	–
17 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–	–	–
18 Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	–
19 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	–	–
20 Amount exceeding 15% threshold	–	–	–
21 of which: significant investments in the common stock of financials	–	–	–
22 of which: deferred tax assets arising from temporary differences	–	–	–
23 CBUAE specific regulatory adjustments	–	136,091	–
24 Total regulatory adjustments to Common Equity Tier 1	575,748	606,581	–
25 Common Equity Tier 1 capital (CET1)	13,263,903	13,784,069	–
Additional Tier 1 capital: instruments			
26 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	–	–	–
27 of which: classified as equity under applicable accounting standards	–	–	–
28 of which: classified as liabilities under applicable accounting standards	–	–	–
29 Directly issued capital instruments subject to phase-out from additional Tier 1	–	–	–
30 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	–	–	–
31 of which: instruments issued by subsidiaries subject to phase-out	–	–	–
32 Additional Tier 1 capital before regulatory adjustments	–	–	–
Additional Tier 1 capital: regulatory adjustments			
33 Investments in own additional Tier 1 instruments	–	–	–
34 Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	–	–	–
35 Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	–	–	–
36 CBUAE specific regulatory adjustments	–	–	–
37 Total regulatory adjustments to additional Tier 1 capital	–	–	–
38 Additional Tier 1 capital (AT1)	–	–	–
39 Tier 1 capital (T1= CET1 + AT1)	13,263,903	13,784,069	–
Tier 2 capital: instruments and provisions			
40 Directly issued qualifying Tier 2 instruments plus related stock surplus	–	–	–
41 Directly issued capital instruments subject to phase-out from Tier 2	–	–	–
42 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–	–	–
43 of which: instruments issued by subsidiaries subject to phase-out	–	–	–
44 Provisions	812,945	852,347	–
45 Tier 2 capital before regulatory adjustments	–	–	–

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Composition of regulatory capital (CC1) (continued)

	2022 AED000	2021 AED000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Tier 2 capital: regulatory adjustments			
46	–	–	–
47	–	–	–
48	–	–	–
49	–	–	–
50	–	–	–
51	812,945	852,347	–
52	14,076,848	14,636,416	–
53	79,115,793	85,287,846	–
Capital ratios and buffers			
54	16.77	16.16	–
55	16.77	16.16	–
56	17.79	17.16	–
57	2.50	2.50	–
58	2.50	2.50	–
59	–	–	–
60	–	–	–
61	6.27	5.82	–
The CBUAE Minimum Capital Requirement			
62	7.00	7.00	–
63	8.50	8.50	–
64	10.50	10.50	–
Amounts below the thresholds for deduction (before risk weighting)			
65	–	–	–
66	–	–	–
67	–	–	–
68	–	–	–
Applicable caps on the inclusion of provisions in Tier 2			
69	975,534	1,022,816	–
70	812,945	852,346	–
71	–	–	–
72	–	–	–
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
73	–	–	–
74	–	–	–
75	–	–	–
76	–	–	–
77	–	–	–
78	–	–	–

Composition of capital (CC2)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	AED000	AED000	
Assets			
Cash and balances at central bank	9,185,600	9,185,600	—
Items in the course of collection from other banks	123,252	123,252	—
Trading assets	6,559,399	6,559,399	—
Financial assets designated and otherwise at fair value through profit and loss	73,429	73,429	—
Derivatives	6,899,854	6,899,854	—
Loans and advances to banks	16,169,142	16,169,142	—
Loans and advances to customers	50,015,493	50,015,493	—
Reverse repurchase agreements-non trading	22,064,566	22,064,566	—
Financial Investments	19,677,336	19,677,336	—
Prepayments, accrued income and other assets	3,402,442	3,402,442	—
Intangible assets	630,608	630,608	—
Deferred tax assets	534,007	534,007	—
Total assets	135,335,128	135,335,128	
Liabilities			
Deposits from banks	11,712,584	11,712,584	—
Items in the course of collection due to other banks	588,896	588,896	—
Customer accounts	86,036,533	86,036,533	—
Repurchase agreements - non trading	3,429,224	3,429,224	—
Trading Liabilities	1,351,711	1,351,711	—
Financial liabilities designated at fair value	3,986,253	3,986,253	—
Derivatives	6,416,727	6,416,727	—
Debt securities in issue	159,647	159,647	—
Accruals, deferred income and other liabilities	4,739,830	4,739,830	—
Current tax liabilities	122,789	122,789	—
Provisions	155,752	155,752	—
Total liabilities	118,699,946	118,699,946	
Shareholders' equity			
Allocated Capital	4,495,255	4,495,255	(a)
Legal Reserves	2,247,628	2,247,628	—
Other Reserves	766,163	766,163	—
Unremitted Profit	9,126,136	9,126,136	—
Total shareholders' equity	16,635,182	16,635,182	—
Total liabilities and Head Office funds	135,335,128	135,335,128	

Summary comparison of accounting assets vs leverage ratio exposure (LR1)

	2022	2021
	AED000	AED000
1 Total consolidated assets as per published financial statements	135,335,128	136,882,336
2 Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	—	—
3 Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	—	—
4 Adjustments for temporary exemption of central bank reserves (if applicable)	—	—
5 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	—	—
6 Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	—	—
7 Adjustments for eligible cash pooling transactions	—	—
8 Adjustments for derivative financial instruments	497,193	4,359,176
9 Adjustment for securities financing transactions (ie repos and similar secured lending)	986,651	2,731,723
10 Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	24,295,902	26,709,518
11 Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(370,654)	(467,584)
12 Other adjustments	(940,202)	(879,215)
13 Leverage ratio exposure measure	159,804,017	169,335,954

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Leverage ratio common disclosure template (LR2)

	2022 AED000	2021 AED000	
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	99,572,744	117,381,124
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	–	–
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	–	–
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	–	–
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	–	–
6	(Asset amounts deducted in determining Tier 1 capital)	(370,654)	(467,584)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	99,202,090	116,913,540
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	2,033,367	1,275,305
9	Add-on amounts for PFE associated with all derivatives transactions	5,363,677	6,764,174
10	(Exempted CCP leg of client-cleared trade exposures)	–	–
11	Adjusted effective notional amount of written credit derivatives	–	–
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
13	Total derivative exposures (sum of rows 8 to 12)	7,397,045	8,039,479
Securities financing transactions			
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	27,922,330	14,941,693
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
16	CCR exposure for SFT assets	986,651	2,731,723
17	Agent transaction exposures	–	–
18	Total securities financing transaction exposures (sum of rows 14 to 17)	28,908,981	17,673,416
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	79,323,318	78,789,998
20	(Adjustments for conversion to credit equivalent amounts)	(55,027,416)	(52,080,480)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	–	–
22	Off-balance sheet items (sum of rows 19 to 21)	24,295,902	26,709,518
Capital and total exposures			
23	Tier 1 capital	13,263,903	13,920,160
24	Total exposures (sum of rows 7, 13, 18 and 22)	159,804,017	169,335,953
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	8.30	8.22
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8.30	8.22
26	CBUAE minimum leverage ratio requirement (%)	3.00	3.00
27	Applicable leverage buffers	–	–

General qualitative information about credit risk (CRA)

Retail Risk

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

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

Wholesale Risk

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

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

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

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

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

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

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

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

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

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

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

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

Bank has embedded three line of defence business model to achieve its strategic objectives, while managing the risk tightly within appetite. UAE Wholesale Credit Risk (Second line) team functionally reports into their group counterparts through Regional Chief Credit officer for wholesale and Regional CRO, WPB for WPB. They maintain their independence from revenue generating unit (First line). Beside the internal quality monitoring processes within Risk function, Internal Audit (Third line) reviews and provides their opinion on the overall control environment periodically.

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

Organization is set up across three pillar – Global business, Global functions and Operational unit called DBS (Digital Banking Services). These units functionally report in to Group Chief Executive Officer, and works collaboratively at each country level. Risk and Compliance is one of the Global function, that works closely with business. Internal Audit is also one of the Global function that collaborates across businesses and functions.

Credit risk reporting to the senior management

Key risk indicators, caps and triggers and various granular management information at portfolio level are regularly reported to senior management and governance forums. Periodic credit risk update is provided to Board Risk Committee and Group Management. Beside the risk reporting, forward looking strategy and policy changes are updated to executive management.

Credit quality of assets (CR1)

		Gross carrying values of			of which: ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures (a)	Non-defaulted exposures (b)	Allowances/ Impairments (c)	Allocated in regulatory category of Specific	Allocated in regulatory category of General	
		AED000	AED000	AED000	AED000	AED000	AED000
1	Loans	3,626,945	65,388,345	2,830,655	2,552,350	278,305	66,184,635
2	Debt securities	–	19,678,356	1,020	–	1,020	19,677,336
3	Off-balance sheet exposures	53,288	20,348,503	15,565	366	15,199	20,386,226
4	Total	3,680,233	105,415,204	2,847,240	2,552,716	294,524	106,248,197

Note:

- Loans represent loans and advances to customers and Bank's at amortized cost.
- Debt securities include financial investments at amortized cost and debt instruments measured at fair value through other comprehensive income.

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Changes in stock of defaulted loans and debt securities (CR2)

		2022 AED000
1	Defaulted loans and debt securities at the end of the previous reporting period	4,050,774
2	Loans and debt securities that have defaulted since the last reporting period	603,047
3	Returned to non-default status	29,404
4	Amounts written off	797,020
5	Other changes	200,452
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	3,626,945

Additional disclosure related to the credit quality of assets (CRB)

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.

Credit-impaired (stage 3)

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

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

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

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

Write-off

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

Forbearance

Loans are identified as forbore and classified as either performing or non-performing when we modify the contractual terms due to financial difficulty of the borrower. Non-performing forbore 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 forbore loans are initially stage 2 and remain classified as forbore 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 forbore 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 forbore 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 forbore.

Loan modification other than forbearance

Loan modifications that are not identified as forbore 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 group'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 ('PD') which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), 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 PDs and through-the-cycle migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

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

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

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due.

The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

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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 forbore 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 forbore 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 group 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 group 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	<ul style="list-style-type: none"> Through the cycle (represents long-run average PD throughout a full economic cycle) 	<ul style="list-style-type: none"> Point in time (based on current conditions, adjusted to consider estimates of future conditions that will impact PD)
EAD	<ul style="list-style-type: none"> Cannot be lower than current balance 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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		<ul style="list-style-type: none"> 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 group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group 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 group 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 group'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 group 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 group 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.

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 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.

Breakdown of exposures by residual maturity

Exposures by residual maturity	2022										
	On Balance sheet exposure						Off Balance sheet exposure				
	Trading assets	Derivatives	Cash and balances at central bank	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements – non-trading	Financial investments	Other assets	Loan and other credit-related commitments	Financial guarantees and similar contracts	Total
AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Due within 3 months	2,148,460	6,516,250	9,185,600	13,677,494	18,372,221	16,687,219	6,189,557	2,478,064	45,157,283	33,851,505	152,263,653
Due between 3 and 12 months	3,704,570	3,429	–	1,306,144	5,394,202	1,029,022	2,301,723	75,598	–	–	13,814,688
Due between 1 and 5 years	706,369	309,234	–	1,185,504	18,136,027	4,348,325	10,552,281	75,983	–	–	35,313,723
Due after 5 years	–	70,941	–	–	8,113,043	–	633,775	2,134,093	–	–	10,951,852
Total	6,559,399	6,899,854	9,185,600	16,169,142	50,015,493	22,064,566	19,677,336	4,763,738	45,157,283	33,851,505	214,343,916

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Breakdown of exposures by industry

Exposures by industry	2022										
	On Balance sheet exposure							Off Balance sheet exposure			
	Trading assets AED000	Derivatives AED000	Cash and balances at central bank AED000	Loans and advances to banks AED000	Loans and advances to customers AED000	Reverse repurchase agreements – non-trading AED000	Financial investments AED000	Other assets AED000	Loan and other credit-related commitments AED000	Financial guarantees and similar contracts AED000	Total AED000
Banks	5,789,089	6,051,630	8,428,472	16,169,142	–	14,327,421	8,972,065	506,028	156,384	6,635,463	67,035,694
Agriculture and Allied Activities	–	–	–	–	2,511	–	–	12	12	37,060	39,595
Construction	–	2,984	–	–	1,902,240	–	–	131,701	4,312,356	7,481,037	13,830,318
Electricity, Gas and Water	17,103	46,185	–	–	2,468,327	–	–	30,542	2,159,204	1,194,317	5,915,678
Government	172,747	77,332	–	–	4,878,752	–	9,991,910	131,349	872,301	4,032	16,128,423
Manufacturing	–	63,423	–	–	7,776,422	–	–	714,159	7,174,791	7,131,495	22,860,290
Mining & Quarrying	10,717	–	–	–	296,297	–	–	1,353	412,493	8,937	729,797
Non-Bank Financial Institutions	7,765	246,981	–	–	543,836	7,382,579	–	24,019	403,558	184,108	8,792,846
Real Estate	–	231,514	–	–	2,884,270	–	–	122,317	1,344,459	41,189	4,623,749
Trade	3,966	81,657	–	–	4,526,114	–	–	466,160	11,465,247	4,462,344	21,005,488
Transport, Storage & Communication	617	39,437	–	–	5,583,532	–	–	60,896	3,622,673	2,142,577	11,449,732
Other Services	557,395	58,711	–	–	6,821,638	354,566	713,361	148,481	7,556,166	4,527,258	20,737,576
Individuals & HNIs	–	–	–	–	12,331,554	–	–	178,087	5,677,639	1,688	18,188,968
All Others	–	–	757,128	–	–	–	–	2,248,634	–	–	3,005,762
Total	6,559,399	6,899,854	9,185,600	16,169,142	50,015,493	22,064,566	19,677,336	4,763,738	45,157,283	33,851,505	214,343,916

Breakdown of exposures by geographical areas

Exposures by geographical areas	2022										
	On Balance sheet exposure							Off Balance sheet exposure			
	Trading assets AED000	Derivatives AED000	Cash and balances at central bank AED000	Loans and advances to banks AED000	Loans and advances to customers AED000	Reverse repurchase agreements – non-trading AED000	Financial investments AED000	Other assets AED000	Loan and other credit-related commitments AED000	Financial guarantees and similar contracts AED000	Total AED000
United Arab Emirates	3,621,236	767,417	9,185,600	5,844,942	42,150,535	5,021,116	7,075,693	4,424,636	39,885,141	23,551,521	141,527,837
GCC (Except UAE)	2,671,870	476,124	–	5,511,281	2,297,417	9,718,981	738,475	165,405	820,935	986,366	23,386,854
Europe	–	5,190,676	–	746,368	865,825	362,145	1,395,778	13,410	2,938,267	4,858,246	16,370,715
Asia	–	148,469	–	450,542	1,976,972	6,437,680	168,073	25,113	357,029	2,852,176	12,416,054
Others	266,293	317,168	–	3,616,009	2,724,744	524,644	10,299,317	135,174	1,155,911	1,603,196	20,642,456
Total	6,559,399	6,899,854	9,185,600	16,169,142	50,015,493	22,064,566	19,677,336	4,763,738	45,157,283	33,851,505	214,343,916

Amounts of impaired loans, related allowances and write-offs, broken down by industry

Industry	2022		
	Non Performing Loan AED000	ECL AED000	Write-off AED000
Construction	860,971	689,668	251,048
Electricity, Gas and Water	–	–	37,638
Manufacturing	450,552	293,384	7,698
Mining & Quarrying	118,295	64,533	–
Real Estate	969,496	541,582	24,759
Trade	430,587	321,356	288,405
Transport, Storage & Communication	9,001	4,453	–
Other Services	514,129	481,192	37,101
Individuals	273,914	156,182	150,370
Total	3,626,945	2,552,350	797,020

Amounts of impaired loans, related allowances and write-offs, broken down by geographical areas

Country	2022		
	Non Performing Loan AED000	ECL AED000	Write-off AED000
United Arab Emirates	3,608,577	2,542,288	758,232
GCC (Except UAE)	204	204	37,638
Europe	6,888	1,394	1,150
Asia	7,355	7,340	–
Others	3,921	1,124	–
Total	3,626,945	2,552,350	797,020

Ageing analysis of accounting past-due exposures

Industry and Past Due	2022								
	Gross carrying amount			Allowance for ECL			Net carrying amount		
	<30 DPD AED000	31-90 DPD AED000	90+ DPD AED000	<30 DPD AED000	31-90 DPD AED000	90+ DPD AED000	<30 DPD AED000	31-90 DPD AED000	90+ DPD AED000
Loans and advances to customers held at amortised cost	351,566	123,692	3,163,480	(43,620)	(28,691)	(2,410,009)	307,946	95,001	753,471
– Corporate and commercial	228,535	68,511	3,027,857	(23,911)	(9,304)	(2,315,529)	204,624	59,207	712,328
– Personal banking	122,919	55,180	135,623	(19,709)	(19,387)	(94,480)	103,210	35,793	41,143
– Non-bank financial institutions	112	1	–	–	–	–	112	1	–
Other financial assets measured at amortised cost	3,761	554	–	(6)	–	–	3,755	554	–

Breakdown of restructured exposures between impaired and not impaired exposures

Impaired/Not impaired	2022
	AED000
Impaired loans	1,850,083
Not impaired loans	1,564,647
Total	3,414,730

Qualitative disclosure requirements related to credit risk mitigation techniques (CRC)

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

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

Netting

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

Collateral

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

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Valuing collaterals

Local market conditions determine the frequency of valuation for Corporate Real Estate (CRE). Revaluations are sought where, for instance, as part of the regular credit assessment of the obligor, material concerns arise in relation to the performance of the collateral. CRE revaluation also occurs commonly in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation. Where such concerns exist, the revaluation method selected will depend upon the loan to value relationship, the direction in which the local CRE market has moved since last valuation, and most importantly the specific characteristics of the underlying commercial real estate which is of concern.

Other Forms of Credit Risk Mitigation

In corporate lending, the Group also takes guarantees from corporates and Export Credit Agencies. Corporates would normally provide guarantees as part of a parent/subsidiary or common parent relationship and would span a number of credit grades. The Export Credit Agencies will normally be investment grade.

Concentration risk for Retail business is managed through Portfolio Exposure caps, and diversification of asset book across secured & unsecured products. Granular caps & triggers are implemented to diversify the risk within portfolios.

Management of Residual Credit Risk

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

Credit risk mitigation techniques – overview (CR3)

		2022						
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
		AED000	AED000	AED000	AED000	AED000	AED000	AED000
1	Loans	63,465,647	423,336	422,141	3,175,709	3,175,709	–	–
2	Debt securities	19,871,428	–	–	–	–	–	–
3	Total	83,337,075	423,336	422,141	3,175,709	3,175,709	–	–
4	– of which: defaulted	842,079	–	443	–	–	–	–
		2021						
1	Loans	59,639,263	610,367	601,618	4,576,407	4,576,407	–	–
2	Debt securities	33,941,743	–	–	–	–	–	–
3	Total	93,581,006	610,367	601,618	4,576,407	4,576,407	–	–
4	– of which: defaulted	1,381,950	1,770	1,770	–	–	–	–

Note – The above disclosure includes on-balance sheet loans and advances to banks and customers at amortised cost split into unsecured and secured by CRM techniques.

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

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

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

- Sovereigns and Central Banks.
- Public Sector Entities.
- Multilateral Development Banks.
- Banks.
- Corporates.

HSBC UAE use three ECAIs for this purpose – Moody's Investor Service ('Moody's'), Standard and Poor's rating agency ('S&P') and Fitch Ratings ('Fitch'). If there are ratings from two different rating agencies that map to different risk weights, the higher risk weight is applied. If there are ratings from three or more rating agencies that map to different risk weights, the two ratings that correspond to the lowest risk weights is referred to. If these two ratings give rise to the same risk weight, that risk weight is applied. If the two are different, the higher of the two risk weights is applied.

The Bank uses three ECAs for this purpose – Moody’s Investor Service (‘Moody’s’), Standard and Poor’s rating agency(‘S&P’) and Fitch Ratings (‘Fitch’).

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

Exposures by asset classes and risk weights (CR4)

Asset classes	2022					
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount AED000	Off-balance sheet amount AED000	On-balance sheet amount AED000	Off-balance sheet amount AED000	RWA AED000	RWA density (%)
1 Sovereigns and their central banks	35,725,387	882,062	35,725,387	21,371	379,738	1.06
2 Public Sector Entities	8,508,055	7,602,314	8,508,055	2,476,460	5,475,150	49.84
3 Multilateral development banks	2,289,828	–	2,289,828	–	–	–
4 Banks	12,482,170	7,384,483	12,482,170	3,655,029	6,250,829	38.74
5 Securities firms	–	–	–	–	–	–
6 Corporates	24,242,926	57,223,183	24,242,926	14,897,496	35,295,720	90.18
7 Regulatory retail portfolios	4,645,349	5,624,669	4,645,349	1,963	3,585,618	77.15
8 Secured by residential property	7,721,896	12,533	7,721,896	–	3,163,533	40.97
9 Secured by commercial real estate	–	–	–	–	–	–
10 Equity Investment in Funds (EIF)	–	–	–	–	–	–
11 Past-due loans	736,976	430,339	736,976	430,339	1,291,399	110.63
12 Higher-risk categories	–	–	–	–	–	–
13 Other assets	2,690,011	–	2,690,011	–	2,635,353	97.97
14 Total	99,042,599	79,159,583	99,042,599	21,482,659	58,077,339	48.19
	2021					
1 Sovereigns and their central banks	48,415,103	649,606	48,415,103	5,348	407,182	0.84
2 Public Sector Entities	9,844,300	5,603,968	9,844,300	2,186,355	6,866,105	57.07
3 Multilateral development banks	2,359,804	–	2,359,804	–	–	–
4 Banks	11,529,361	6,733,992	11,529,361	3,375,136	5,127,527	34.40
5 Securities firms	–	–	–	–	–	–
6 Corporates	24,037,391	58,472,766	24,037,391	15,844,891	35,273,701	88.44
7 Regulatory retail portfolios	4,225,469	5,486,338	4,225,469	1,022	3,299,082	78.06
8 Secured by residential property	7,045,284	–	7,045,284	–	3,053,765	43.34
9 Secured by commercial real estate	–	–	–	–	–	–
10 Equity Investment in Funds (EIF)	–	–	–	–	–	–
11 Past-due loans	930,322	601,520	930,322	601,520	1,693,415	110.55
12 Higher-risk categories	–	–	–	–	–	–
13 Other assets	2,497,651	–	2,497,651	–	2,788,619	111.65
14 Total	110,884,686	77,548,190	110,884,686	22,014,272	58,509,395	44.03

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Exposures by asset classes and risk weights (CR5)

Asset classes	2022								
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	Total
1 Sovereigns and their central banks	34,457,341	1,137,101	–	–	–	152,317	–	–	35,746,759
2 Public Sector Entities	536,133	4,416,436	–	2,880,169	–	3,151,778	–	–	10,984,516
3 Multilateral development banks	2,289,828	–	–	–	–	–	–	–	2,289,828
4 Banks	98,198	7,536,410	–	7,518,451	–	983,777	363	–	16,137,199
5 Securities firms	–	–	–	–	–	–	–	–	–
6 Corporates	2,907,374	1,374	–	1,832,518	–	34,265,880	33	133,242	39,140,422
7 Regulatory retail portfolios	8,336	–	–	–	4,213,432	425,543	–	–	4,647,312
8 Secured by residential property	–	–	6,921,581	–	237,342	562,973	–	–	7,721,896
9 Secured by commercial real estate	–	–	–	–	–	–	–	–	–
10 Equity Investment in Funds (EIF)	–	–	–	–	–	–	–	–	–
11 Past-due loans	22,333	–	–	–	–	852,148	292,834	–	1,167,315
12 Higher-risk categories	–	–	–	–	–	–	–	–	–
13 Other assets	757,097	123,246	–	–	–	1,275,645	–	534,024	2,690,011
14 Total	41,076,640	13,214,567	6,921,581	12,231,137	4,450,774	41,670,062	293,230	667,266	120,525,258

2021									
1 Sovereigns and their central banks	46,780,999	1,540,337	–	–	–	99,115	–	–	48,420,451
2 Public Sector Entities	1,675,970	2,127,521	–	3,573,127	–	4,654,037	–	–	12,030,655
3 Multilateral development banks	2,359,804	–	–	–	–	–	–	–	2,359,804
4 Banks	142,475	7,934,858	–	6,573,219	–	253,946	–	–	14,904,497
5 Securities firms	–	–	–	–	–	–	–	–	–
6 Corporates	3,198,466	320,143	–	2,073,643	–	33,508,684	36	781,310	39,882,282
7 Regulatory retail portfolios	5,451	–	–	–	3,687,830	533,210	–	–	4,226,491
8 Secured by residential property	560	–	5,975,205	–	428,307	641,213	–	–	7,045,284
9 Secured by commercial real estate	–	–	–	–	–	–	–	–	–
10 Equity Investment in Funds (EIF)	–	–	–	–	–	–	–	–	–
11 Past-due loans	19,540	–	–	–	–	1,150,077	362,225	–	1,531,843
12 Higher-risk categories	–	–	–	–	–	–	–	–	–
13 Other assets	576,115	128,219	–	–	–	1,146,879	–	646,438	2,497,651
14 Total	54,759,380	12,051,078	5,975,205	12,219,989	4,116,137	41,987,159	362,261	1,427,749	132,898,959

Qualitative disclosure related to counterparty credit risk (CCRA)

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

General wrong way risk

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

Bank manages a country based GWWR framework. All countries are in scope with the exception of France (EUR), Germany (EUR), Great Britain (GBP), Japan (JPY), Switzerland (CHF) and the United States (USD). All counterparties are in scope. For GWWR which falls outside of the country based framework, all countries and counterparties are within scope.

Specific wrong way risk

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

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

WWR measurement and Controls

The Bank follows a country based frame work for WWR trades.

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

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

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

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

SWWR transactions (including reverse repos with central Banks on in-country government bonds) should be recorded at 100% of notional for Category B limit and measurement purposes. GWWR and SWWR risk appetite is set by the Global Head of Traded Risk and reported to the GBM RMM. The Global Head of Traded Risk is also responsible for setting of global country-specific WWR limits which are consistent with the overarching limits. Regional WWR limits are set via the Regional CRO with concurrence by Group Traded Risk.

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

WWR reporting is carried out at least on a monthly basis.

WWR Exposure

Given the Bank's market of operations and product offering, exposure for WWR trades primarily comes from forward dated FX transactions and Reverse Repo (RRP) trades.

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

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

The Bank monitors WWR for the below mentioned countries, with the mentioned country ratings: (United Arab Emirates, Fair, Kingdom of Saudi Arabia, Fair, Sultanate of Oman, CBC, Kingdom of Bahrain, CBC, State of Kuwait, Normal, State of Qatar, Fair, People's Republic of China, Fair, Turkey, CBC, Arab Republic of Egypt, CBC).

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

	2022					
	Replacement cost	Potential future exposure	Alpha used for computing regulatory EAD		EAD post-CRM	RWA
	AED000	AED000	EEPE AED000	AED000	AED000	AED000
SA-CCR (for derivatives)	1,452,405	3,441,988	—	1.4	6,852,151	3,521,363
Internal Model Method (for derivatives and SFTs)	—	—	—	—	—	—
Simple Approach for credit risk mitigation (for SFTs)	—	—	—	—	—	—
Comprehensive Approach for credit risk mitigation (for SFTs)	—	—	—	—	28,162,455	1,681,024
VaR for SFTs	—	—	—	—	—	—
Total	—	—	—	—	—	5,202,387
	2021					
SA-CCR (for derivatives)	910,932	4,513,375	—	1.4	7,594,030	4,001,844
Internal Model Method (for derivatives and SFTs)	—	—	—	—	—	—
Simple Approach for credit risk mitigation (for SFTs)	—	—	—	—	21,667,268	5,676,413
Comprehensive Approach for credit risk mitigation (for SFTs)	—	—	—	—	—	—
VaR for SFTs	—	—	—	—	—	—
Total	—	—	—	—	—	9,678,257

Credit valuation adjustment (CVA) capital charge (CCR2)

	2022	
	a	b
	EAD post-AED000	RWA AED000
1 All portfolios subject to the Standardised CVA capital charge	7,838,802	1,755,763
2 All portfolios subject to the Simple alternative CVA capital charge	—	—

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Standardised approach – CCR exposures by regulatory portfolio and risk weights (CCR3)

Regulatory Portfolio	2022							Total Credit Exposure
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	
Sovereigns	71,271	–	–	–	723,940	–	–	795,210
Public Sector Entities (PSEs)	433,461	33,417	8,529	–	264,928	–	–	740,334
Multilateral development banks (MDBs)	–	–	–	–	–	–	–	–
Banks	21,507,396	2,138,114	5,075,926	–	344,663	–	–	29,066,100
Securities firms	–	–	–	–	–	–	–	–
Corporates	3,520,348	–	582	–	892,032	–	–	4,412,962
Regulatory retail portfolios	–	–	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–	–	–
Equity Investment in Funds (EIF)	–	–	–	–	–	–	–	–
Past-due loans	–	–	–	–	–	–	–	–
Higher-risk categories	–	–	–	–	–	–	–	–
Other assets	6,080,172	–	–	–	–	–	–	6,080,172
Total	31,612,647	2,171,531	5,085,037	–	2,225,562	–	–	41,094,777

	2021							
Sovereigns	119,524	–	–	–	1,080,585	–	–	1,200,109
Public Sector Entities (PSEs)	10,307	200,822	696,229	–	376,606	–	–	1,283,964
Multilateral development banks (MDBs)	–	–	–	–	–	–	–	–
Banks	6,513,086	11,262,692	6,732,424	–	1,182,002	–	–	25,690,204
Securities firms	–	–	–	–	–	–	–	–
Corporates	7,045	43,648	28,062	–	1,006,247	2,018	–	1,087,020
Regulatory retail portfolios	–	–	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–	–	–
Equity Investment in Funds (EIF)	–	–	–	–	–	–	–	–
Past-due loans	–	–	–	–	–	–	–	–
Higher-risk categories	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–
Total	6,649,963	11,507,162	7,456,715	–	3,645,439	2,018	–	29,261,298

Composition of collateral for CCR exposure (CCR4)

	2022					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated AED000	Unsegregated AED000	Segregated AED000	Unsegregated AED000	AED000	AED000
Cash – domestic currency	–	–	–	–	–	–
Cash – other currencies	–	979,933	–	32,281	–	–
Domestic sovereign debt	–	–	–	–	131,696	–
Government agency debt	–	–	–	–	20,646,006	–
Corporate bonds	–	–	–	–	2,681,726	–
Equity securities	–	–	–	–	–	–
Other collateral	–	–	–	–	2,001,777	–
Total	–	979,933	–	32,281	25,461,205	–

	2021					
Cash – domestic currency	–	–	–	–	–	–
Cash – other currencies	–	185,535	–	4,407	–	–
Domestic sovereign debt	–	–	–	–	326,694	–
Government agency debt	–	–	–	–	6,734,038	–
Corporate bonds	–	–	–	–	94,086	–
Equity securities	–	–	–	–	–	–
Other collateral	–	–	–	–	628,407	–
Total	–	185,535	–	4,407	7,783,225	–

Credit derivative exposures (CCR5)

	Protection bought 2022 AED000	Protection sold 2022 AED000	Protection bought 2021 AED000	Protection sold 2021 AED000
Notionals	–	–	–	–
Single-name credit default swaps	16,526	106,503	383,776	106,503
Index credit default swaps	–	–	–	–
Total return swaps	–	–	–	–
Credit options	–	–	–	–
Other credit derivatives	–	–	–	–
Total notionals	16,526	106,503	383,776	106,503
Fair values	–	–	–	–
Positive fair value (asset)	469	392	599	452
Negative fair value (liability)	–	(853)	(3,233)	(732)

General qualitative disclosure requirements related to market risk (MRA)

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

The existence of market risk limits does not confer any credit limits which must be separately established where applicable. Equally, the granting of a credit limit does not confer any authority to take market risk. Market risk limits are separately established.

All open market risk must be subject to approved limits. In HBME these limits are reviewed at least on an annual basis and formally delegated.

As per the Bank policy, it is the responsibility of the Principal Office Manager or delegate to ensure that market risk may only be taken by Markets and Securities Services (MSS) businesses within authorized limits. Units other than MSS must transfer market risk to the MSS business, either by an internal transaction between the two areas, or by the inclusion of the transaction in the MSS business' dealing position. The market risk limit mandate of the consolidated regional entity or entity should encompass all market risks taken. Exceptions to this rule should be explicitly agreed with local management, such as local and regional ALCO, and with Group WMR. Any exceptions must be subject to the same control and reporting requirements as that applied to risk taken by MSS, including annual review of limits by Group WMR.

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

Risk Profile

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

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

The main generator of this risk in HSBC UAE is through derivative transactions, which it engages in as a market-maker to service clients seeking financial services or risk management solutions. HSBC UAE also engages in vanilla FX transactions, which generate FX risk.

Given the market Bank operates in, most of the market risk is linked to MENA currencies and interest rates. Any non-MENA risk is limited or is maintained as macro hedges to the rest of the portfolio.

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

The Bank does not run or have the mandates to run complex risks, which include, but is not limited to, optionality. All complex derivatives are run on a (B2B) basis only (the market risk is transferred to other group entities, while related counterparty risk remains with the local entity).

The Bank can only buy options (FX or IR) as principal, which limits the risk to the premium paid to purchase the option. This in turn is monitored through the Premium Paid limit.

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

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

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

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Limit Proposal, Approvals and Set up

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

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

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

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

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

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

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

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

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

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

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

Limit Monitoring

Market Risk limit utilizations are monitored and reported against applicable limits on a daily basis.

These are monitored independently by Market Risk Control and signed off dually by Regional Market Risk Managers as Second Line of Defence and MSS as Risk Owners (First line of Defence).

Daily limit utilizations and trends are re-ordered and available for view on the system and through various MI reports.

HSBC UAE also monitors market risk limits through its RAS, which include the following measures;

- Value at Risk (99%, 1Day) for the trading book.
- Stressed Value at Risk (99%, 1Day) for the trading book.
- Traded Credit Mark to Market (Excluding Collateral).

Any high utilizations (>80% utilizations) are reviewed and flagged for management view on reporting system.

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

Market risk under the standardised approach (SA) (MR1)

	RWA 2022 AED000	RWA 2021 AED000
1 General Interest rate risk (General and Specific)	4,701,903	7,481,107
2 Equity risk (General and Specific)	–	–
3 Foreign exchange risk	844,163	1,078,321
4 Commodity risk	–	–
6 Options	–	–
5 Simplified approach	–	–
6 Delta-plus method	–	–
7 Scenario approach	–	–
8 Securitisation	–	–
9 Total	5,546,066	8,559,429

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

The Bank adopts the Group's Risk Management Framework (RMF) to manage financial and non-financial risks (or operational risks). The main non-financial risk categories defined by the Bank include regulatory compliance, financial crime, legal, resilience risk (which include cyber and systems risks), financial reporting & tax, people and model risks. The RMF includes detailed requirements to identify, assess and manage and report on non-financial risks across all businesses and functions. There are detailed technical user guides to support the procedures and activities needed for complying with the HSBC's RMF that enables the consistent and effective management of operational risk as part of its business operations and processes. A risk appetite framework defines the requirements for setting and monitoring of the Bank's risk appetite to ensure that the Bank operates within the appetite set by the Board.

HSBC UAE operates a well-defined, established and mature three lines of defence model for operational risk management and the roles and responsibilities of role-holders within the three lines of defence are clearly articulated in the Bank's Risk Management Framework. The first line of defence Risk Owners are responsible for risk identification and mitigation, and Control Owners are responsible for control design, operation, monitoring and assessment. These first line roles are supported by Chief Control Officers who are the operational risk subject matter experts in the first line and are responsible for management of risk profiles, control configuration and control testing across specific lines of business.

The second line of defence Risk Stewards are responsible for setting policy, advising the first line of defence on risks and controls and conducting assurance activity over the design and operating effectiveness of controls. They also challenge the first line to ensure its risk management activities are working effectively. Operational Risk, as part of the second line, performs oversight and challenge of both the first line of defence and also of the activities of the Risk Stewards to ensure the operational risk management framework and its policies are embedded and effective. Operational Risk also provides insight and guidance to the CRO on the management of non-financial risks.

Internal Audit, the third line of defence, has responsibility for independently assessing the effectiveness of risk and control management across the first and second lines of defence.

Implementation of the Risk Management Framework has led to a shift of accountabilities and responsibilities from the traditional Operational Risk team to the specialist Risk Stewards teams in the second line of defence. Clearer responsibilities were also given to the Chief Control Officers and Control Owners in the first line of defence for the management of their risks via control design, testing and continuous control monitoring, amongst others.

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

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

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

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

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

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

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

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

Liquidity risk management (LIQA)

Overview

At 31 December 2022, the Bank was above regulatory minimum liquidity and funding levels. 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.

Liquidity coverage ratio (LCR)

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

Net stable funding ratio ('NSFR')

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

Deposit 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.

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.

Stress Testing

The Bank uses stress testing to evaluate the robustness of plans and risk portfolios. Stress testing also informs the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("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.

Further information on Liquidity risk maturity analysis can be found in note 25 of the HSBC UAE annual report and accounts.

Eligible Liquid Assets Ratio (ELAR)

	Eligible Liquid Asset		Eligible Liquid Asset	
	Nominal amount 2022	Nominal amount 2021	Nominal amount 2022	Nominal amount 2021
1 High Quality Liquid Assets	AED000	AED000	AED000	AED000
1.1 Physical cash in hand at the bank + balances with the CBUAE	14,185,600		11,479,265	
1.2 UAE Federal Government Bonds and Sukuks	7,214,754		17,665,910	
Sub Total (1.1 to 1.2)	21,400,354	21,400,354	29,145,175	29,145,175
1.3 UAE local governments publicly traded debt securities	88,545		422,323	
1.4 UAE Public sector publicly traded debt securities	11,472		461	
Sub total (1.3 to 1.4)	100,017	100,017	422,784	422,784
1.5 Foreign Sovereign debt instruments or instruments issued by their respective central banks	3,793,546	3,793,546	5,207,647	5,207,647
1.6 Total	25,293,917	25,293,917	34,775,606	34,775,606
2 Total liabilities		118,544,192		121,451,021
3 Eligible Liquid Assets Ratio (ELAR) (%)		21.34		28.63

Advances to Stables Resource Ratio (ASRR)

	2022 AED000	2021 AED000
1 Computation of Advances		
1.1 Net Lending (gross loans - specific and collective provisions + interest in suspense)	56,786,517	54,423,132
1.2 Lending to non-banking financial institutions	4,273,143	1,704,337
1.3 Net Financial Guarantees & Stand-by LC (issued - received)	(2,059)	(289,639)
1.4 Interbank Placements	7,881,710	4,381,705
1.5 Total Advances	68,939,311	60,219,535
2 Calculation of Net Stable Resources		
2.1 Total capital + general provisions	16,994,582	15,932,734
Deduct:		
2.1.1 Goodwill and other intangible assets	630,608	467,584
2.1.2 Fixed Assets	888,190	909,529
2.1.3 Funds allocated to branches abroad	—	—
2.1.5 Unquoted Investments	—	—
2.1.6 Investment in subsidiaries, associates and affiliates	—	—
2.1.7 Total deduction	1,518,798	1,377,113
2.2 Net Free Capital Funds	15,475,784	14,555,621
2.3 Other stable resources:		
2.3.1 Funds from the head office	—	—
2.3.2 Interbank deposits with remaining life of more than 6 months	5,187,164	6,444,848
2.3.3 Refinancing of Housing Loans	—	—
2.3.4 Borrowing from non-Banking Financial Institutions	3,541,607	3,712,730
2.3.5 Customer Deposits	71,355,375	63,379,706
2.3.6 Capital market funding/ term borrowings maturing after 6 months from reporting date	1,584,246	2,711,318
2.3.7 Total other stable resources	81,668,392	76,248,602
2.4 Total Stable Resources (2.2+2.3.7)	97,144,176	90,804,223
3 Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100) (%)	70.97	66.32

Interest rate risk in the banking book (IRRBB) – risk management objectives and policies (IRRBBA)

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

Regional Treasury governs and controls IRRBB. This include:

- Setting the IRRBB strategy and risk appetite in line with HSBC group directive and local considerations.
- Ensuring adequate systems and data is available for measurement of IRRBB.
- Governance and continuous monitoring of IRRBB exposure and informing the Asset and Liability Committee ('ALCO') on the same.
- Optimising IRRBB exposures via hedging and balance sheet management to minimize impact of adverse rate movement on the Bank's earnings.
- Maintaining and updating the transfer pricing framework (Risk Buy-in).
- Reviewing and challenging the business prior to the release of new products.

The internal transfer pricing framework is constructed to ensure that structural interest rate risk is bought in (transferred to) by Treasury for monitoring, controlling and hedging. IRRBB exposures transfer priced to Treasury constitute the structural hedge demand of the Bank. Based on view of the market, and available hedging (and other NII stabilization) options, treasury will execute the structural hedge supply. The internal transfer pricing framework is governed by UAE Asset Liability committee ("ALCO"). The ALCO defines transfer pricing curve, reviews and annually approves the transfer pricing policy, including behaviouralisation assumptions used for products where there is either no defined maturity or customer optionality exists. UAE policies are in line with HSBC group's behaviouralisation policies.

The Group's IRRBB risk management framework monitors and controls the potential volatility in future net interest income, the potential variability in economic value, and any potential impacts on CET1 capital. This is achieved through the use of a number of risk management tools including Earnings and valuation metrics. Earnings (NII) and valuation metrics(EVE) is used to measure and monitor the Interest rate risk in Banking book. EVE and NII metrics are prepared on a quarterly basis.

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

NII is defined as the difference between the projected income on institutions asset's minus the expense on liabilities, including off-balance sheet. ΔNII or NII sensitivity is defined as change in the earning of the Bank as a result of interest rate shocks. ΔNII is calculated for 25, 100 and 200 bps up and down parallel shock scenarios. For these qualitative disclosures +/-200 bps parallel shock is disclosed that was also submitted for CBUAE RBS survey. NII is based on a static balance sheet assumption. NII and its sensitivity is calculated for material currencies.

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EVE is defined as the difference between present value of the institutions asset's minus the present value of liabilities, including off-balance sheet. EVE excludes commercial margin from the cash flows and is discounted at risk free rate. Δ EVE or EVE sensitivity is defined risk to economic value (capital) of the Bank as a result of interest rate shocks. Δ EVE is calculated for six Basel prescribed scenarios. For these qualitative disclosures Δ EVE for all six scenarios are disclosed. EVE is based on a run-off balance sheet assumption. Standard set of assumptions are used (i.e for EVE metric disclosure and for internal assessment of capital adequacy). The assumptions are based on historical data analysis which is reviewed, challenged and then approved in line with our governance.

Behavioural options are included for EVE, however, the same is assessed to be immaterial. (prepayment risk).

Risk to earnings and capital is calculated for material currencies.

Quantitative disclosure

- Average repricing maturity assigned to NMDs – 1.2 years
- Longest repricing maturity assigned to NMDs – 5 years

Quantitative information on IRRBB (IRRBB1)

Period	Δ EVE	Δ NII	Δ EVE	Δ NII
	2022		2021	
	AED000	AED000	AED000	AED000
Parallel up	540	953	37	511
Parallel down	(547)	(1,178)	(138)	(433)
Steeper	204	–	(424)	–
Flattener	(311)	–	181	–
Short rate up	276	–	172	–
Short rate down	(584)	–	(516)	–
Period	T		T	
Tier 1 capital	13,263,903		13,920,160	

Remuneration Policy (REMA)

Introduction

Our remuneration policy supports the achievement of our strategic objectives by aligning reward with our long-term sustainable performance. It is underpinned by refreshed reward strategy and proposition.

Rooted in our purpose and values with a focus on the future and what makes HSBC unique, our reward strategy, along with the opportunity to do inspiring work, have impact and contribute within our international network, define our workforce proposition. The principles supporting our reward strategy articulate the experience for employees and provide a clear framework to strengthen our competitive advantage.

- We'll reward you responsibly – fixed pay security and protection through core benefits, a competitive total compensation opportunity, pay equity with a more inclusive and sustainable benefits proposition over time.
- We'll recognise your success – our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities.
- We'll support you to grow – the proposition beyond pay; skills; wellbeing; flexibility.

Total compensation, which comprises fixed and variable pay, is the key focus of our remuneration framework, with variable pay differentiated by performance and demonstration of value-aligned behaviours. We set out below the key features and design characteristics of our remuneration framework, which will apply on a Group-wide basis, subject to compliance with local laws.

Overview of remuneration structure for employees

Fixed pay.

- Attract and retain employees with market competitive pay for the role, skills and experience required.
- May include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practice.
- Based on predetermined criteria, non-discretionary, transparent, and not reduced based on performance.
- May change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities, and experience.

Benefits.

- Support the physical, mental and financial health of a diverse workforce in accordance with local market practice.
- This include but not limited to provision of End of Service Benefit/pension plan, medical insurance, life insurance, Flexi Working, annual health assessment and relocation allowances.

Annual incentive

- Incentivise and reward performance based on annual financial and non-financial measures consistent with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.
- All employees are eligible to be considered for a discretionary variable pay award. Individual awards are determined against objectives for performance set at the start of the year.
- Represents a higher proportion of total compensation for more senior employees and will be more closely aligned to Group and business performance as seniority increases.
- Awards can be in the form of cash and/or shares depending on the remuneration framework of the role.

Buy-Out awards

- Support recruitment of key individuals.
- Buy-out awards may be offered if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer.
- The terms of the buy-out awards will not be more generous than the terms attached to the awards forfeited on cessation of employment with the previous employer.

Target variable remuneration

- Support recruitment of key individuals.
- Target variable pay is an indicative value, which is awarded in exceptional circumstances for new hires, and is limited to the individuals first year of employment only and is subject to a number of factors (such as HSBC Group, Business and individual performance) and the final value paid remains at the full discretion of HSBC.
- The exceptional circumstances would typically involve a critical new hire and would also depend on the factors such as the seniority of the individual, where the new hire candidate is forfeiting any.

Deferral

- Align employee interests with the medium to long-term strategy, stakeholder interests and values-aligned behaviours.
- A Group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares vesting annually over a three-year period with 33% vesting on the first and second anniversaries of grant and 34% on the third anniversary.
- All deferred awards are subject to malus.
- Group Material Risk Takers (MRTs) share-based awards are subject to a retention period of up to one year after vesting.

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- Awards granted to employees identified under Group MRT and Group Standard Deferral policy are subject to clawback.
- HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC securities.
- For all Group MRTs and the majority of local MRTs, excluding executive Directors where deferral is typically in the form of shares only, a minimum of 50% of the deferred awards is in HSBC shares and the balance is deferred into cash. Local regulatory requirements would also apply where necessary.

Governance framework and oversight

The Group Remuneration Committee ('the Committee') is responsible for setting the overarching principles, parameters and governance of the Group's remuneration framework for our colleagues, and the remuneration of executive Directors, the Group Chairman and other senior Group colleagues. All members of the Committee are independent non-executive Directors of HSBC Holdings plc.

The Committee regularly reviews the framework to ensure it supports the Group's purpose, values, culture and strategy, as well as promoting sound risk management. The Committee also reviews the framework to satisfy itself that it complies with the regulatory requirements of multiple jurisdictions.

Group Remuneration Committee's terms of reference sets out the responsibility delegated to it by the Board of HSBC Holdings plc, including:

- Setting the principles, parameters and governance framework of the remuneration policy applicable to all employees in accordance with the regulatory requirements in effect,
- Reviewing and satisfying itself that the remuneration structure for MRTs is in accordance with prevailing regulatory requirements (for HBME UAE branch adherence to local MRT requirement is overseen by local senior management executive committee & HBME Chairman's committee),
- Ensuring that remuneration for employees in Audit, Internal Control, Risk and Compliance functions is determined independently of other business areas,
- Assessing if there are effective safeguards in place to ensure that remuneration policies are clearly aligned with the Group's risk appetite and the regulatory and other legislative requirements which are required to comply with,
- Seeking advice from the Group Risk Committee ('GRC') on the alignment of remuneration with risk appetite and conduct.

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

The Committee consults with the Group Risk Committee ('GRC') on the alignment of risk and remuneration and on risk adjustments to be applied in setting annual variable pay pool.

The Financial System Vulnerabilities Committee ('FSVC') provide input to the Committee's decision of any adjustment for risks that are under the FSVC's oversight.

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

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

Link between risk, performance and review

Our remuneration practices promote sound and effective risk management while supporting our business objectives and the delivery of our strategy. We set out below the key features of our framework, which help enable us to achieve alignment between risk, performance and reward, subject to compliance with local laws and regulations.

Group variable pay pool calculation

HSBC Group variable pay pool is expected to reflect Group performance, based on a range of financial, non-financial and contextual factors. We use a countercyclical funding methodology, with both a floor and a ceiling, with the payout ratio generally reducing as performance increases to avoid pro-cyclicality. The floor recognises that even in challenging times, remaining competitive is important. The ceiling recognises that at higher levels of performance it is not always necessary to continue to increase the variable pay pool, thereby limiting the risk of inappropriate behaviour to drive financial performance.

The main quantitative and qualitative performance and risk metrics used for assessment of performance include:

- Group and business unit financial performance, taking into account contextual factors driving performance, and capital requirements.
- Current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan and global conduct outcomes.
- Fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit for determining the pool.

In the event that the Group was unable to distribute dividends to shareholders for reasons such as capital adequacy, then the Group may determine that as a year of weak performance. In such a year, the Group may withhold some, or all, variable pay for employees including unvested share awards, using the metrics outlined above as a basis for that determination.

Individual performance scorecard

- Assessment of performance with reference to clear and relevant financial and non-financial objectives set within a performance scorecard framework.
- A mandatory global risk objective is included in the scorecard of all other employees.
- All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved.

Control function staff

- The performance and reward of individuals in control functions, including risk and compliance employees, are assessed according to a balanced scorecard of objectives specific to the functional role they undertake.
- Their remuneration is determined independent of the performance of the business areas they oversee.
- Group policy is for control functions staff to report into their respective function heads. Remuneration decisions for senior functional roles are made by the global function head.

Malus/Clawback policy

Malus can be applied to unvested deferred awards granted in prior years in circumstances including:

- detrimental conduct, including conduct that brings the business into disrepute;
- past performance being materially worse than originally reported;
- restatement, correction or amendment of any financial statements; and
- improper or inadequate risk management.
- This is in addition to in-year variable pay adjustments and other disciplinary actions that can be taken.

For MRT awards, the deferred awards are also subject to clawback. Clawback may be applied in circumstances including:

- participation in, or responsibility for, conduct that results in significant losses;
- failing to meet appropriate standards and propriety;
- reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment.
- material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures.

Sales Incentive

We generally do not operate commission-based sales plans, unless aligned with local market practice and with appropriate safeguards to avoid incentivising inappropriate sales behaviours.

Identification of MRTs

- MRT identification is undertaken to meet both Group MRT requirement based on qualitative & quantitative criteria set out in the European Union Regulatory Technical Standard ('RTS') 2021/923 and UAE Central Bank Corporate Governance Regulations & Standards.
- Remuneration structure for MRTs identified under each regulation is aligned to prescribed MRT Compensation rules.

Remuneration awarded during the financial year (REM1)

Remuneration Amount			Senior Management	Senior Management
			2022 AED000	2021 AED000
1	Fixed Remuneration	Number of employees	11	8
2		Total fixed remuneration (3 + 5 + 7)	18,241	12,956
3		<i>of which: cash-based</i>	18,241	12,956
4		<i>of which: deferred</i>	–	–
5		<i>of which: shares or other share-linked instruments</i>	–	–
6		<i>of which: deferred</i>	–	–
7		<i>of which: other forms</i>	–	–
8		<i>of which: deferred</i>	–	–
9	Variable Remuneration	Number of employees	11	8
10		Total variable remuneration (11 + 13 + 15)	14,715	11,116
11		<i>of which: cash-based</i>	7,763	6,235
12		<i>of which: deferred</i>	3,532	2,801
13		<i>of which: shares or other share-linked instruments</i>	6,951	4,881
14		<i>of which: deferred</i>	3,601	2,905
15		<i>of which: other forms</i>	–	–
16		<i>of which: deferred</i>	–	–
17	Total Remuneration (2+10)	32,956	24,072	

REM2 – Special payments

The Bank has not made any special payments during the year 2022 and 2021.

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For Year Ended 31 December 2022**

Deferred remuneration (REM3)

Deferred and retained remuneration	2022				
	Total amount of outstanding deferred remuneration	<i>of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment</i>	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
	AED000	AED000	AED000	AED000	AED000
Senior management	–	–	–	–	–
Cash	4,439	4,439	–	–	4,858
Shares	256	256	–	–	206
Cash-linked instruments	–	–	–	–	–
Other	–	–	–	–	–
Other material risk-takers	–	–	–	–	–
Cash	–	–	–	–	–
Shares	–	–	–	–	–
Cash-linked instruments	–	–	–	–	–
Other	–	–	–	–	–
Total	4,695	4,695	–	–	5,063
	2021				
Senior management	–	–	–	–	–
Cash	6,307	–	–	–	2,920
Shares	7,495	–	–	–	5,088
Cash-linked instruments	–	–	–	–	–
Other	–	–	–	–	–
Other material risk-takers	–	–	–	–	–
Cash	–	–	–	–	–
Shares	–	–	–	–	–
Cash-linked instruments	–	–	–	–	–
Other	–	–	–	–	–
Total	13,802	–	–	–	8,008

HSBC Bank Middle East Limited

HSBC Bank, Downtown, Dubai
P.O. Box 66, Dubai, UAE
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