

# HSBC Bank Middle East Limited - UAE Operations

**Pillar 3 Disclosures at 30 September 2023**

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# Introduction

## Legal status and principal 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.

## Pillar 3 disclosures

The Basel III framework is structured around three 'pillars', with the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process complemented by Pillar 3 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 framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Our Pillar 3 Disclosures as at 30 September 2023 comprises of quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/ BSD/N/2020/4980 and CBUAE/ BSD/N/2021/5508) published in November 2020 and November 21 respectively.

## Governance

HSBC UAE has operated within a framework of internal controls and procedures for assessing the appropriateness of these disclosures.

## Comparatives and references

To give insight into movements during the year, we provide comparative figures, commentary on variances, The regulatory numbers and ratios presented in this document were accurate as at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we may restate in subsequent periods. Where disclosures have been enhanced, or are new, we do not generally restate or provide comparatives.

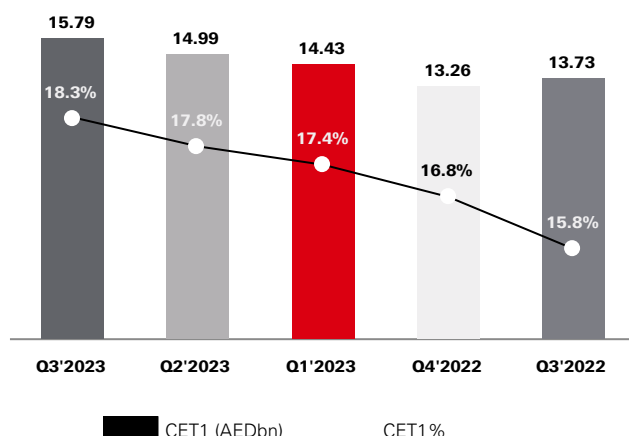
## Applicability of Disclosures

Listed quarterly disclosure templates are not applicable for HSBC UAE, hence these disclosures have not been reported.

Topic	Table	Information Overview
Liquidity	LIQ1	Liquidity Coverage Ratio

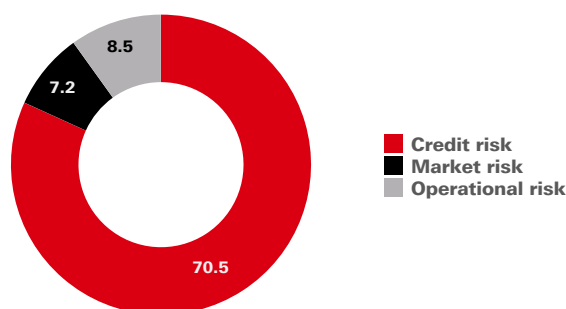
## Highlights

### Common equity tier 1



### Risk-weighted assets by risk type

AED 86.2bn (2Q23:AED84.4bn)



At 30 September 2023, our CET1 capital ratio increased to 18.3% from 17.8% at 30 June 2023, resulting from increased profits in Q3 2023, which is partially offset by an increase in RWAs of AED1.8bn. The key drivers for the increase in RWA are:

- Credit risk - increased by AED 2.6bn
- Market risk - decreased by AED 872mn

## Key Metrics

The below table provides an overview of the Bank's prudential regulatory metrics. HSBC UAE is not a Domestic Systematically Important Bank (DSIB) hence, Liquidity Coverage Ratio and Net Stable Funding Ratio are not applicable .

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

		At				
		Q3'2023	Q2'2023	Q1'2023	Q4'2022	Q3'2022
		AED000	AED000	AED000	AED000	AED000
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 (CET1)	15,794,583	14,988,031	14,426,831	13,263,903	13,726,585
1a	Fully loaded ECL accounting model <sup>1</sup>	15,794,583	14,988,031	14,426,831	13,263,903	13,726,585
2	Tier 1	15,794,583	14,988,031	14,426,831	13,263,903	13,726,585
2a	Fully loaded ECL accounting model Tier 1 <sup>1</sup>	15,794,583	14,988,031	14,426,831	13,263,903	13,726,585
3	Total capital	16,675,476	15,835,747	15,262,154	14,076,848	14,581,560
3a	Fully loaded ECL accounting model total capital <sup>1</sup>	16,675,476	15,835,747	15,262,154	14,076,848	14,581,560
<b>Risk-weighted assets (amounts)</b>						
4	<b>Total risk-weighted assets (RWA)</b>	<b>86,173,946</b>	84,392,084	82,924,188	79,115,793	87,141,808
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio (%)	18.33	17.76	17.40	16.77	15.75
5a	Fully loaded ECL accounting model CET1 (%) <sup>1</sup>	18.33	17.76	17.40	16.77	15.75
6	Tier 1 ratio (%)	18.33	17.76	17.40	16.77	15.75
6a	Fully loaded ECL accounting model Tier 1 ratio (%) <sup>1</sup>	18.33	17.76	17.40	16.77	15.75
7	Total capital ratio (%)	19.35	18.76	18.40	17.79	16.73
7a	Fully loaded ECL accounting model total capital ratio (%) <sup>1</sup>	19.35	18.76	18.40	17.79	16.73
<b>Additional CET1 buffer requirements as a percentage of RWA</b>						
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 (%) <sup>6</sup>	8.85	8.26	7.90	7.29	6.23
<b>Leverage Ratio<sup>4</sup></b>						
13	Total leverage ratio measure	173,574,773	169,063,640	166,374,168	159,804,017	159,030,190
14	Leverage ratio (%) (row 2/row 13)	9.10	8.87	8.67	8.30	8.63
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.10	8.87	8.67	8.30	8.63
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.10	8.87	8.67	8.30	8.63
<b>ELAR<sup>5</sup></b>						
21	Total HQLA <sup>2</sup>	35,362,215	32,225,381	33,701,768	25,293,917	21,876,749
22	Total liabilities	128,802,924	126,072,359	121,201,088	118,544,192	115,952,535
23	Eligible Liquid Assets Ratio (ELAR) (%)	27.45	25.56	27.81	21.34	18.87
<b>ASRR<sup>5</sup></b>						
24	Total available stable funding	99,432,561	99,010,299	100,897,171	97,144,176	91,309,929
25	Total Advances	67,511,195	63,641,783	66,516,144	68,939,311	65,012,526
26	Advances to Stable Resources Ratio (%)	67.90	64.28	65.92	70.97	71.20

1 No transitional arrangement has been applied from Q3 2022.

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

3 The total risk-weighted assets (RWA) - Refer to the overview (OV1) disclosure for further details on RWAs.

4 Leverage ratio - Refer to leverage section for further details.

5 ELAR and ASRR - Refer liquidity section for further details.

6 Total capital ratio less 10.5% as per CBUAE regulations.

Available capital mainly increased due to the current period profit.

The total risk-weighted assets (RWA) increased due to the following. Refer to the overview (OV1) disclosure for further details on RWAs.

- increase in corporate and public sector enterprise (PSE) claims on corporates.
- partially offset by the decrease in market risk.

## Risk-weighted assets

The above table provides the minimum capital requirements for credit risk, counterparty credit risk, market risk and operational risk. These requirements are expressed in terms of RWAs.

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

	RWA	Minimum capital requirements <sup>1</sup>	RWA	Minimum capital requirements <sup>1</sup>
	30 Sep 2023	30 Sep 2023	30 Jun 2023	30 Jun 2023
	AED000	AED000	AED000	AED000
1 Credit risk (excluding counterparty credit risk)	64,753,084	6,799,074	62,315,793	6,543,158
2 of which: standardised approach (SA)	64,753,084	6,799,074	62,315,793	6,543,158
3 of which: foundation internal ratings-based (F-IRB) approach	—	—	—	—
4 of which: supervisory slotting approach	—	—	—	—
5 of which: advanced internal ratings-based (A-IRB) approach	—	—	—	—
6 Counterparty credit risk (CCR)	4,443,847	466,604	4,202,763	441,290
7 of which: standardised approach for counterparty credit risk	4,443,847	466,604	4,202,763	441,290
8 of which: Internal Model Method (IMM)	—	—	—	—
9 of which: other CCR	—	—	—	—
10 Credit valuation adjustment (CVA)	1,272,976	133,663	1,298,367	136,329
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	1,520	160	364	38
16 Securitisation exposures in the banking book	—	—	—	—
17 of which: securitisation internal ratings-based approach (SEC-IRBA)	—	—	—	—
18 of which: securitisation external ratings-based approach (SEC-ERBA)	—	—	—	—
19 of which: securitisation standardised approach (SEC-SA)	—	—	—	—
20 Market risk	7,168,401	752,682	8,040,679	844,271
21 of which: standardised approach (SA)	7,168,401	752,682	8,040,679	844,271
22 of which: internal models approach (IMA)	—	—	—	—
23 Operational risk	8,534,119	896,082	8,534,119	896,082
24 Amounts below thresholds for deduction (subject to 250% risk weight)	—	—	—	—
25 Floor adjustment	—	—	—	—
26 <b>Total (1+6+10+11+12+13+14+15+16+20+23)</b>	<b>86,173,946</b>	<b>9,048,264</b>	84,392,084	8,861,169

<sup>1</sup> The regulatory minimum capital requirement is calculate at 10.5% of the RWA.

Total Risk Weighted Assets (RWA) increased by AED 1.8bn mainly due to the increase in credit risk (including CCR and CVA) by AED 2.6bn partially sett off by a decrease in market risk by AED 872mn.

- Credit risk - Corporate exposures increased by AED 1.7bn and PSEs treated as claims on corporates by AED 1.5bn.
- Market risk - Foreign exchange risk decreased due to short positions of GCC currencies compared to Q2 2023.

## Leverage

The below table reconciles the total assets in the financial statements to the leverage ratio exposure measures.

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

	<b>30 Sep 2023 AED000</b>	30 Jun 2023 AED000
1 Total consolidated assets as per published financial statements <sup>1</sup>	<b>146,242,791</b>	142,788,534
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	<b>868,786</b>	810,110
9 Adjustment for securities financing transactions (ie repos and similar secured lending)	<b>173,632</b>	298,899
10 Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	<b>27,396,275</b>	25,501,991
11 Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital <sup>2</sup>	<b>(1,023,009)</b>	(690,647)
12 Other adjustments <sup>3</sup>	<b>(83,702)</b>	354,753
<b>13 Leverage ratio exposure measure</b>	<b>173,574,773</b>	169,063,640

1 HSBC UAE does not publish interim financial statements.

2 This includes Expected Credit Losses (ECL's) for stage 1,2 and 3. For Sep 23, additional specific impairment reserve has been included.

3 Other adjustments consist of asset amounts deducted in determining Tier 1 capital, including intangible assets.

The below table provides a breakdown of the components of the leverage ratio denominator and information on the actual leverage ratio, minimum requirements, and buffers.

Leverage ratio common disclosure template (LR2)

		At	
		30 Sep 2023 AED000	30 Jun 2023 AED000
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	111,812,674	110,594,546
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)	(728,226)	(292,812)
7	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)</b>	<b>111,084,448</b>	<b>110,301,733</b>
<b>Derivative exposures</b>			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*1.4	1,647,772	1,561,443
9	Add-on amounts for PFE associated with all derivatives transactions*1.4	4,773,955	4,464,617
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	<b>Total derivative exposures (sum of rows 8 to 12)</b>	<b>6,421,727</b>	<b>6,026,060</b>
<b>Securities financing transactions</b>			
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	28,498,692	26,934,957
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
16	CCR exposure for SFT assets	173,632	298,899
17	Agent transaction exposures	—	—
18	<b>Total securities financing transaction exposures (sum of rows 14 to 17)</b>	<b>28,672,324</b>	<b>27,233,856</b>
<b>Other off-balance sheet exposures</b>			
19	Off-balance sheet exposure at gross notional amount	92,906,454	88,751,610
20	(Adjustments for conversion to credit equivalent amounts)	(65,510,179)	(63,249,619)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	—	—
22	<b>Off-balance sheet items (sum of rows 19 to 20)</b>	<b>27,396,275</b>	<b>25,501,991</b>
<b>Capital and total exposures</b>			
23	<b>Tier 1 capital</b>	<b>15,794,583</b>	<b>14,988,031</b>
24	<b>Total exposures (sum of rows 7, 13, 18 and 22)</b>	<b>173,574,773</b>	<b>169,063,640</b>
<b>Leverage ratio</b>			
25	<b>Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)</b>	<b>9.10</b>	<b>8.87</b>
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	9.10	8.87
26	CBUAE minimum leverage ratio requirement (%)	3	3
27	Applicable leverage buffers	—	—

On-balance sheet exposures increased to AED 112mn as at 30 September 23 (AED 110mn as at 31 June 23) due to the increase in loans and advances to banks and investments in financial assets.

Securities Financing Transactions (SFT's) increased due to reverse repo transactions.

## Liquidity

The below table presents the breakdown of the Bank's available high-quality liquid assets (HQLA), as measured and defined according to the CBUAE Liquidity Regulations.

### Eligible Liquid Assets Ratio (ELAR)

	Nominal amount	Eligible Liquid Asset	Nominal amount	Eligible Liquid Asset
	30 Sep 2023	30 Sep 2023	30 Jun 2023	30 Jun 2023
	AED000	AED000	AED000	AED000
1 High Quality Liquid Assets				
1.1 Physical cash in hand at the bank + balances with the CB UAE	12,911,907		9,942,289	
1.2 UAE Federal Government Bonds and Sukuks	16,940,311		17,353,632	
Sub Total (1.1 to 1.2)	29,852,218	29,852,218	27,295,921	27,295,921
1.3 UAE local governments publicly traded debt securities	205,499		95,543	
1.4 UAE Public sector publicly traded debt securities	—		—	
Sub total (1.3 to 1.4)	205,499	205,499	95,543	95,543
1.5 Foreign Sovereign debt instruments or instruments issued by their respective central banks	5,305,601	5,304,498	4,834,649	4,833,917
1.6 Total	35,363,318	35,362,215	32,226,113	32,225,381
2 Total liabilities		128,802,924		126,072,359
3 Eligible Liquid Assets Ratio (ELAR) (%)		27.45		25.56

The below table presents the breakdown of the Bank's Advances to Stable Resources Ratio (ASRR).

### Advances to Stables Resource Ratio (ASRR)

		At
	30 Sep 2023	30 Jun 2023
	AED000	AED000
1 <b>Computation of Advances</b>		
1.1 Net Lending (gross loans - specific and collective provisions + interest in suspense)	46,385,601	45,829,798
1.2 Lending to non-banking financial institutions	6,778,147	9,959,038
1.3 Net Financial Guarantees & Stand-by LC (issued - received)	116,627	315,137
1.4 Interbank Placements	14,230,820	7,537,810
1.5 <b>Total Advances</b>	67,511,195	63,641,783
2 <b>Calculation of Net Stable Resources</b>		
2.1 Total capital + general provisions	17,651,612	17,016,971
<b>Deduct:</b>		
2.1.1 Goodwill and other intangible assets	728,226	697,136
2.1.2 Fixed Assets	875,392	879,637
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 <b>Total deduction</b>	1,603,618	1,576,773
2.2 <b>Net Free Capital Funds</b>	16,047,994	15,440,198
2.3 <b>Other stable resources:</b>		
2.3.1 Funds from the head office	—	—
2.3.2 Interbank deposits with remaining life of more than 6 months	3,731,713	4,190,033
2.3.3 Refinancing of Housing Loans	—	—
2.3.4 Borrowing from non-Banking Financial Institutions	3,588,886	3,012,558
2.3.5 Customer Deposits	74,937,920	75,183,421
2.3.6 Capital market funding/ term borrowings maturing after 6 months from reporting date	1,126,048	1,184,089
2.3.7 <b>Total other stable resources</b>	83,384,567	83,570,101
2.4 <b>Total Stable Resources (2.2+2.3.7)</b>	99,432,561	99,010,299
3 <b>Advances to Stable Resources Ratio (1.5/ 2.4*100) (%)</b>	67.90	64.28



**HSBC Bank Middle East Limited**

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**HSBC Bank Middle East Limited**

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

**HSBC Bank Middle East Limited - UAE Operations**