HSBC Bank Middle East Limited - UAE Operations

Pillar 3 Disclosures at 31 December 2023

HSBC

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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.

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

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

Pillar 3 disclosures and governance

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 31 December 2023 comprises of quantitative and qualitative information required. These disclosures are in accordance with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSD/N/2020/4980 and CBUAE CBUAE/BSD/N/2021/5508) published in November 2020 and November 2021 respectively.

HSBC UAE has operated within a framework of internal controls and procedures for assessing the appropriateness of pillar 3 disclosures.

This document should be read in conjunction with the *HSBC UAE Annual Report and Accounts 2023*, which has been published on our website at www.about.hsbc.ae/financial-information.

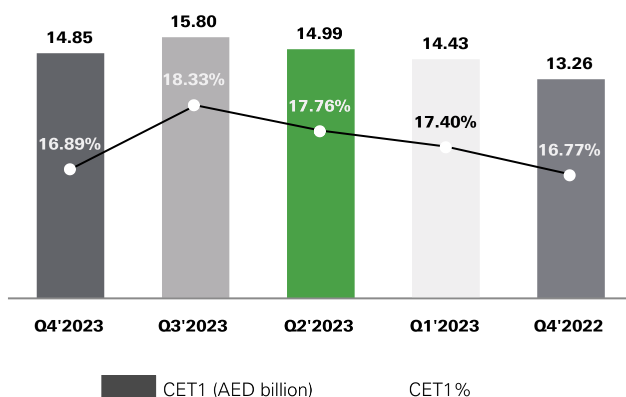
Applicability of Disclosures

The below listed Pillar 3 disclosure templates are not applicable for HSBC UAE, hence these disclosures have not been reported.

Topic	Table	Information Overview
Composition of capital	CCA	Main features of regulatory capital instruments
Macroprudential Supervisory measures	CCyB1	Geographical distribution of credit exposures used in the countercyclical buffer
Liquidity	LIQ1	Liquidity Coverage Ratio
	LIQ2	Net Stable Funding Ratio
Counterparty credit risk (CCR)	CCR8	Exposures to central counterparties
Securitisation	SECA	Qualitative disclosure requirements related to securitisation exposures
	SEC1	Securitisation exposures in the banking book
	SEC2	Securitisation exposures in the trading book
	SEC3	Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor
	SEC4	Securitisation exposures in the trading book and associated capital requirements - bank acting as investor

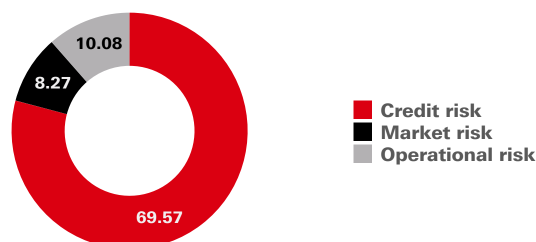
Highlights

Common Equity Tier 1



Risk Weighted Assets (RWAs) by risk type

AED 87.9 billion (31 Dec 2022 – AED 79.12 billion)



At 31 December 2023, our CET1 capital ratio decreased to 16.89% (18.33% as at 30 September 2023), resulting from the proposed dividend and the increase in RWAs amounting to AED 1.7 billion. This was partially offset by the increase in Q4'23 profit (AED 607 million). The key drivers were the increase in Market risk RWA's (AED 1.1 billion) and Operational risk RWAs (AED 1.5 billion), partially offset by the decrease in Credit risk RWAs (AED 905 million).

Overview of risk management, key prudential metrics and RWAs

The table below sets out the key regulatory metrics covering the HSBC UAE's available capital (including buffer requirements and ratios), RWAs, Leverage ratio, ELAR and ASRR. HSBC UAE is not a Domestic Systematically Important Bank (D-SIB), therefore Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are not applicable for HSBC UAE operations.

Key Metrics (KM1)

		31 Dec 2023 AED000	30 Sep 2023 AED000	30 Jun 2023 AED000	31 Mar 2023 AED000	31 Dec 2022 AED000
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	**14,848,371**	15,794,583	14,988,031	14,426,831	13,263,903
1a	Fully loaded ECL accounting model[1]	**14,848,371**	15,794,583	14,988,031	14,426,831	13,263,903
2	Tier 1	**14,848,371**	15,794,583	14,988,031	14,426,831	13,263,903
2a	Fully loaded ECL accounting model Tier 1[1]	**14,848,371**	15,794,583	14,988,031	14,426,831	13,263,903
3	Total capital	**15,717,942**	16,675,476	15,835,747	15,262,154	14,076,848
3a	Fully loaded ECL accounting model total capital[1]	**15,717,942**	16,675,476	15,835,747	15,262,154	14,076,848
	Risk-weighted assets (amounts)					
4	**Total risk-weighted assets (RWA)[2]**	**87,918,444**	86,173,946	84,392,084	82,924,188	79,115,793
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	**16.89**	18.33	17.76	17.40	16.77
5a	Fully loaded ECL accounting model CET1 (%)[1]	**16.89**	18.33	17.76	17.40	16.77
6	Tier 1 ratio (%)	**16.89**	18.33	17.76	17.40	16.77
6a	Fully loaded ECL accounting model Tier 1 ratio (%)[1]	**16.89**	18.33	17.76	17.40	16.77
7	Total capital ratio (%)	**17.88**	19.35	18.76	18.40	17.79
7a	Fully loaded ECL accounting model total capital ratio (%)[1]	**17.88**	19.35	18.76	18.40	17.79
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (%)	**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 (%)[4]	**7.38**	8.85	8.26	7.90	7.29
	Leverage Ratio[3]					
13	Total leverage ratio measure	**166,621,558**	173,574,773	169,063,640	166,374,168	159,804,017
14	Leverage ratio (%) (row 2/row 13)	**8.91**	9.10	8.87	8.67	8.30
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)[1]	**8.91**	9.10	8.87	8.67	8.30
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	**8.91**	9.10	8.87	8.67	8.30
	Eligible Liquid Assets Ratio (ELAR)[5]					
21	Total HQLA	**27,426,797**	35,362,215	32,225,381	33,701,768	25,293,917
22	Total liabilities	**119,994,200**	128,802,924	126,072,359	121,201,088	118,544,192
23	Eligible Liquid Assets Ratio (ELAR) (%)	**22.86**	27.45	25.56	27.81	21.34
	Advances to Stable Resources Ratio (ASRR)[5]					
24	Total available stable funding	**100,233,728**	99,432,561	99,010,299	100,897,171	97,144,176
25	Total Advances	**74,965,260**	67,511,195	63,641,783	66,516,144	68,939,311
26	Advances to Stable Resources Ratio (ASRR) (%)	**74.79**	67.90	64.28	65.92	70.97

1 *No transitional arrangement has been applied from Q4 2022.*
2 *The total risk weighted assets (RWA) - Refer to the overview (OV1) disclosure for further details on RWAs.*
3 *Leverage ratio - Refer to leverage section for further details.(page 16).*
4 *Total capital ratio less 10.5% as per CBUAE regulations.*
5 *ELAR and ASRR - Refer to liquidity section for further details.(page 34,35).*

Compared to 30 September 2023, available capital reduced due to the proposed dividend payment of AED 1.7 billion partially offset by current year profit of AED 3.1 billion.

The total RWAs increased due to the following compared to 30 September 2023.

- increase in Market risk driven by short position in GCC currencies compared to previous quarter.
- increase in Operational risk.
- partially offset by the decrease in Credit risk.

Overview of Risk Management (OVA)

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks that the Bank is exposed to are Retail and Wholesale Credit risk (including cross-border country risk), Market risk (predominantly Foreign exchange and Interest rate risks), Liquidity, Funding risk and Strategic risk (including Reputational risk and Pension risks). The Bank is also exposed to non-financial risk in various forms (including Resilience risk, Financial Crime and Fraud Risk, People risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting, Tax risks and Model Risks). The Bank is committed to managing and mitigating climate-related risks, both physical and transition risks, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

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

Our risk management framework

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

Key components of our risk management framework

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

Risk culture

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

Risk governance and ownership

The HBME Board has ultimate responsibility for the effective management of risk and approves the risk appetite. 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 and the HBME Risk Management Meeting, the separately convened Country Risk Management Meeting ('UAE RMM') chaired by the UAE Chief Risk Officer ('CRO') (who reports to MENAT CRO) formulates high-level risk management policy and oversees the implementation of risk appetite and controls. The UAE RMM together with the UAE Asset and Liability Committee ('ALCO') monitors all categories of risk, receives reports on actual performance and emerging issues, determines action to be taken and reviews the efficacy of the Bank's risk management framework.

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

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures as described in the following commentary, 'Our responsibilities'. We use a defined and consistent executive risk governance structure to help ensure there is appropriate oversight and accountability of risk, which facilitates reporting and escalation to the UAE RMM.

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 the 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:

- an 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; and
- the level of available staff with the required competencies to manage risks.

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

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

Our Responsibilities

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structures as described below.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.
- The third line of defence is our Global Internal Audit function, which provides independent assurance as to whether our risk management approach and processes are designed and operating effectively.

Risk and Compliance function

Our Risk and Compliance function is responsible for the Bank’s risk management framework. This responsibility includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risk. Risk and Compliance is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the Risk and Compliance function is independent from the global businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

Responsibility for minimising both financial and non-financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. The Bank maintain's adequate oversight of risk through our various specialist risk stewards and the collective accountability held by the CRO.

The Bank continues to strengthen the control environment and approach to the management of non-financial risk, as set out in the risk management framework. The management of non-financial risk focuses on governance and risk appetite, and provides a single view of the non-financial risks that matter the most and the associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. The Bank's ongoing focus is on simplifying the 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 Enterprise Risk Management function.

Stress testing and recovery planning

Our stress testing programmes assesses our capital and liquidity strength through rigorous examination of our resilience to external shocks. As well as undertaking 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 mitigating actions.

The Bank operates a wide-ranging stress testing programme that is a key part of the 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.

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 and the Bank is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

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

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

Recovery plan

Recovery planning is an integral part of the Bank's risk management framework to ensure financial stability. The recovery plan together with stress testing help us understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate risk mitigating action. The Bank is committed to further developing its capabilities in line with applicable local regulatory requirements.

Key developments in 2023

We continue to actively manage the risks related to the macroeconomic and geopolitical uncertainties, as well as other key risks described in this section. In addition, we sought to enhance our risk management in the following areas:

- We enhanced our management of concentration risk at country and single customer group levels by implementing new frameworks to strengthen our control of risk appetite.
- We enhanced our processes, framework and reporting capabilities to improve the control and oversight of our material third parties, to help maintain our operational resilience and meet new and evolving regulatory requirements.
- We continued to make progress with our comprehensive regulatory reporting programme to strengthen our global processes, improve consistency and enhance controls.
- Through our climate risk programme, we continued to embed climate considerations throughout the organisation, including through risk policy updates and the completion of an annual climate risk materiality assessment across the Group. We have developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis.
- We deployed industry-leading technology and advanced analytics capabilities into new markets to improve our ability to identify suspicious activities and prevent financial crime.
- We continued to develop and enhance our electronic communication policies and standards to help enable escalations and follow-up actions which are focused on our most substantive issues. A bank-wide approach on Corporate Device availability is being implemented in order to meet regulatory expectations.
- We are embedding our regulatory management ecosystem following the bank-wide rollout of regulatory horizon scanning capabilities and enhanced regulation mapping tooling.

Top and emerging risks

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

The Bank's current top and emerging risks are described further in HSBC UAE *Annual Report and Accounts 2023* (page 62).

The table below provides the minimum capital resource requirements for Credit risk, Counterparty Credit risk, Market risk and Operational risk. These requirements are expressed in terms of RWAs and represents the minimum capital charge set at 10.5% of RWAs as per CBUAE capital standard issued in 2022.

Overview of RWA (OV1)

		RWA	**Minimum capital requirements[1]**	RWA	Minimum capital requirements[1]
		31 Dec 2023	**31 Dec 2023**	30 Sep 2023	30 Sep 2023
		AED000	**AED000**	AED000	AED000
1	Credit risk (excluding counterparty credit risk)	**64,897,080**	**6,814,193**	64,753,084	6,799,074
2	– *of which: standardised approach (SA)*	***64,897,080***	***6,814,193***	*64,753,084*	*6,799,074*
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)	**3,532,882**	**370,953**	4,443,847	466,604
7	– *of which: standardised approach for counterparty credit risk*	***3,532,882***	***370,953***	*4,443,847*	*466,604*
8	– *of which: Internal Model Method (IMM)*	—	—	—	—
9	– *of which: other CCR*	—	—	—	—
10	Credit valuation adjustment (CVA)	**1,135,737**	**119,252**	1,272,976	133,663
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
16	Securitisation exposures in the banking book	—	—	—	—
17	– *of which: securitisation internal ratings-based approach (SEC-IRBA)*	—	—	—	—
18	– *of which: securitisation external ratings-based approach (SEC-ERBA)*	—	—	—	—
19	– *of which: securitisation standardised approach (SEC-SA)*	—	—	—	—
20	Market risk	**8,270,015**	**868,352**	7,168,401	752,682
21	– *of which: standardised approach (SA)*	***8,270,015***	***868,352***	*7,168,401*	*752,682*
22	– *of which: internal models approach (IMA)*	—	—	—	—
23	Operational risk	**10,082,730**	**1,058,687**	8,534,119	896,082
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)**	**87,918,444**	**9,231,437**	86,173,946	9,048,264

1 The regulatory minimum capital requirement is calculated at 10.5% of the RWA.

Total RWAs increased by AED 1.7 billion mainly due to Market risk (AED 1.1 billion) and Operational risk (AED 1.5 billion), partially offset by decrease in Credit risk (AED 905 million).

- The Market risk increase was driven by short positions in GCC currencies compared to previous quarter.
- The Operational risk increase was driven by increased revenue due to higher interest rate environment.
- The decrease in Credit risk was mainly due to the reduction in exposures with Banks (AED 1 billion) and Public Sector Enterprises (AED 230 million).

Linkages between financial statements and regulatory exposures

The table below provides a breakdown of assets and liabilities under the accounting and regulatory scope of consolidation, by risk types that form the basis for regulatory capital requirements and the link to regulatory exposure value.

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)

	2023					
	Carrying values as reported in published financial statements	Carrying values of items:				
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	AED000	AED000	AED000	AED000	AED000	AED000
Assets						
Cash	**897,814**	**897,814**	—	—	—	—
Items in the course of collection from other banks	**122,531**	**122,531**	—	—	—	—
Trading assets	**6,090,890**	—	**6,090,890**	—	**6,090,890**	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**37,146**	**37,146**	—	—	—	—
Derivative	**4,338,858**	—	**4,338,858**	—	—	—
Loans and advances to banks	**19,734,923**	**19,734,923**	—	—	—	—
Loans and advances to customers	**46,351,320**	**46,351,320**	—	—	—	—
Reverse repurchase agreements – non-trading	**25,960,050**	—	**25,960,050**	—	—	—
Financial investments	**29,602,340**	**29,602,340**	—	—	—	—
Prepayments, accrued income and other assets	**4,087,154**	**4,050,159**	**36,995**	—	—	—
Intangible assets	**753,276**	—	—	—	—	**753,276**
Deferred tax assets	**412,987**	**412,987**	—	—	—	—
Total Assets at 31 Dec 2023	**138,389,289**	**101,209,220**	**36,426,793**	—	**6,090,890**	**753,276**
Liabilities						
Deposits from banks	**3,597,857**	—	—	—	—	**3,597,857**
Items in the course of transmission to other banks	**675,695**	—	—	—	—	**675,695**
Customer accounts	**91,445,335**	—	—	—	—	**91,445,335**
Repurchase agreements – non-trading	**6,666,813**	—	—	—	—	**6,666,813**
Trading liabilities	**3,006,755**	—	—	—	**3,005,078**	**1,677**
Financial liabilities designated at fair value	**3,891,876**	—	—	—	—	**3,891,876**
Derivative	**3,919,936**	—	**3,919,936**	—	—	—
Debt securities in issue	—	—	—	—	—	—
Accruals, deferred income and other liabilities	**6,289,232**	—	—	—	—	**6,289,232**
Current tax liabilities	**500,706**	—	—	—	—	**500,706**
Provisions	**66,679**	—	—	—	—	**66,679**
Total Liabilities at 31 Dec 2023	**120,060,884**	—	**3,919,936**	—	**3,005,078**	**113,135,870**

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1) (continued)

	2022					
	Carrying values as reported in published financial statements	Carrying values of items:				
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	AED000	AED000	AED000	AED000	AED000	AED000
Assets						
Cash[1]	775,803	775,803	—	—	—	—
Items in the course of collection from other banks	123,252	123,252	—	—	—	—
Trading assets	6,559,399	45,931	6,513,468	—	6,513,254	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	73,429	73,429	—	—	—	—
Derivative	6,899,854	—	6,899,853	—	—	—
Loans and advances to banks[1]	24,578,939	24,578,939	—	—	—	—
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	3,185,296	217,146	—	—	—
Intangible assets	630,608	—	—	—	—	630,608
Deferred tax assets	534,007	534,007	—	—	—	—
Total Assets at 31 Dec 2022	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 transmission 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	—	—	—	1,345,263	6,448
Financial liabilities designated at fair value	3,986,253	—	—	—	—	3,986,253
Derivative	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 at 31 Dec 2022	118,699,946	—	6,416,727	—	1,345,263	110,937,956

1 *Representation: During 2023, the reserves with CBUAE have been reclassified from 'Cash' to 'Loans and advances to banks' in the statement of financial position. This approach enables to differentiate between reserves maintained with CBUAE with certain restrictions and other unrestricted balances. The balances with no restrictions are classified as 'Cash'. Accordingly, the comparative information for 2022 has been represented to conform with the current year's presentation. Loans and advances to banks of one month or less includes reserves amounting to AED 8,282 million (2022: AED 8,428 million) at CBUAE which are subject to certain restrictions.*

The table below provides the main differences between the accounting balances and the regulatory exposure amounts by risk type and the on and off-balance sheet treatment of exposure.

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

		2023				
			Items subject to:			
		Total	**Credit risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
		AED000	**AED000**	**AED000**	**AED000**	**AED000**
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	**137,636,013**	**101,209,220**	**—**	**36,426,793**	**6,090,890**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	**6,925,014**	**—**	**—**	**3,919,936**	**3,005,078**
3	Total net amount under regulatory scope of consolidation	**130,710,999**	**101,209,220**	**—**	**32,506,857**	**3,085,812**
4	Off-balance sheet amounts including Derivatives	**32,506,819**	**24,003,672**	**—**	**8,503,147**	**—**
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	**2,929,133**	**2,929,133**	**—**	**—**	**—**
8	Differences due to prudential filters	**—**				
9	**Exposure amounts considered for regulatory purposes at 31 Dec 2023**	**166,146,951**	**128,142,025**	**—**	**41,010,004**	**3,085,812**
		2022				
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	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 LI1)	7,761,990	—	—	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 at 31 Dec 2022	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 ('CCF'). 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.
- There is no difference between HSBC UAE's scope of accounting consolidation and it's scope of regulatory consolidation, as such the columns have been merged in line with Pillar 3 disclosure requirements.

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 Global Banking (GB) and Market Security Services (MSS), and their fair value governance structure comprises of the Finance function, Valuation Committee and 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 Over the Counter ('OTC') derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Bank may not receive the full market value of the transactions.

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

The Bank calculates a separate credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA') for each group legal entity, and within each entity for each counterparty to which the entity has exposure.

The Bank calculates the credit valuation adjustment by applying the probability of default ('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

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)

		31 Dec 2023							
		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:	**—**	**38,448**	**1,337**	**19,540**	**—**	**59,325**	***28,972***	***30,354***
2	*Mid-market value*	**—**	***27,227***	***212***	***16,856***	**—**	***44,295***	**21,557**	**22,738**
3	*Closeout cost*	**—**	***8,642***	***1,125***	***2,684***	**—**	***12,451***	**7,415**	**5,037**
4	*Concentration*	**—**	***2,579***	**—**	**—**	**—**	***2,579***	**—**	**2,579**
5	Early termination	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
6	Model risk	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
7	Operational risk	**—**	**3,513**	**135**	**1,662**	**—**	**5,310**	***2,636***	***2,674***
8	Investing and funding costs	**—**	**31**	**—**	**—**	**—**	**31**	***31***	**—**
9	Unearned credit spreads	**—**	**6,991**	**12**	**—**	**—**	**7,003**	***7,003***	**—**
10	Future administrative costs	**—**	***327***	**—**	***143***	**—**	***470***	**—**	***469***
11	Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
12	**Total adjustment**	**—**	**49,310**	**1,484**	**21,345**	**—**	**72,139**	***38,642***	***33,497***
		31 Dec 2022							
1	Closeout uncertainty, of which:	—	23,901	1984	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	2,211	12,733	—	48,068	*26,049*	*22,019*

Bank does not have any exposure to equities or commodities during 2023 and 2022.

Composition of capital

The table below provides a breakdown of the elements constituting the Bank's capital.The capital base primarily consists of Head office assigned capital, accumulated reserves,general and other reserves and capital deductions.

Composition of regulatory capital (CC1)

		31 Dec 2023 AED000	31 Dec 2022 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	**8,912,264**	7,353,949	–
3	Accumulated other comprehensive income (and other reserves)	**2,194,300**	1,990,447	–
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**	**15,601,819**	13,839,651	–
	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)	**753,275**	630,608	–
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	–	—	–
11	Cash flow hedge reserve	**9,304**	(48,180)	
12	Securitisation gain on sale	–	—	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	**(9,131)**	(6,680)	–
14	Defined benefit pension fund net assets	–	—	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	–	—	–
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	–	—	
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–	—	–
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	—	–
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	—	–
20	Amount exceeding 15% threshold	–	—	–
21	– *of which: significant investments in the common stock of financials*	–	—	–
22	– *of which: deferred tax assets arising from temporary differences*	–	—	–
23	CBUAE specific regulatory adjustments	–	—	–
24	**Total regulatory adjustments to Common Equity Tier 1**	**753,448**	575,748	–
25	**Common Equity Tier 1 capital (CET1)**	**14,848,371**	13,263,903	–
	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)**	**14,848,371**	13,263,903	–
	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	**869,571**	812,945	–

Composition of regulatory capital (CC1) (continued)

		31 Dec 2023 AED000	31 Dec 2022 AED000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
45	**Tier 2 capital before regulatory adjustments**	**869,571**	812,945	—
	Tier 2 capital: regulatory adjustments			
46	Investments in own Tier 2 instruments	—	—	—
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	—	—	—
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	—	—	—
49	CBUAE specific regulatory adjustments	—	—	—
50	**Total regulatory adjustments to Tier 2 capital**	—	—	—
51	**Tier 2 capital (T2)**	**869,571**	812,945	—
52	**Total regulatory capital (TC = T1 + T2)**	**15,717,942**	14,076,848	—
53	**Total risk-weighted assets**	**87,918,444**	79,115,793	—
	Capital ratios and buffers			
54	Common Equity Tier 1 (as a percentage of risk-weighted assets) (%)	**16.89**	16.77	—
55	Tier 1 (as a percentage of risk-weighted assets) (%)	**16.89**	16.77	—
56	Total capital (as a percentage of risk-weighted assets) (%)	**17.88**	17.79	—
57	Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets) (%)	**2.50**	2.50	—
58	*– of which: capital conservation buffer requirement (%)*	***2.50***	*2.50*	—
59	*– of which: bank-specific countercyclical buffer requirement (%)*	—	—	—
60	*– of which: higher loss absorbency requirement (e.g. DSIB) (%)*	—	—	—
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement (%)	**7.38**	7.29	—
	The CBUAE Minimum Capital Requirement			
62	Common Equity Tier 1 minimum ratio (%)	**7.00**	7.00	—
63	Tier 1 minimum ratio (%)	**8.50**	8.50	—
64	Total capital minimum ratio (%)	**10.50**	10.50	—
	Amounts below the thresholds for deduction (before risk weighting)			
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	—	—	—
66	Significant investments in common stock of financial entities	—	—	—
67	Mortgage servicing rights (net of related tax liability)	—	—	—
68	Deferred tax assets arising from temporary differences (net of related tax liability)		—	—
	Applicable caps on the inclusion of provisions in Tier 2			
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	**1,043,485**	975,534	—
70	Cap on inclusion of provisions in Tier 2 under standardised approach	**869,571**	812,945	—
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	—	—	—
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	—	—	—
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2023)			
73	Current cap on CET1 instruments subject to phase-out arrangements	—	—	—
74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	—	—	—
75	Current cap on AT1 instruments subject to phase-out arrangements	—	—	—
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	—	—	—
77	Current cap on T2 instruments subject to phase-out arrangements	—	—	—
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)	—	—	—

Refer to KM1 for major variances compared to prior quarter.

The table below provides an overview of the differences between the scope of accounting consolidation and the scope of regulatory consolidation and to show the link between the numbers that are used in the composition of capital disclosure template set out in CC1.

Reconciliation of regulatory capital to balance sheet (CC2)

Assets	**Balance sheet as in financial statements**	**Under regulatory scope of consolidation**	Balance sheet as in published financial statements	Under regulatory scope of consolidation	**Reference to CC1**
	31 Dec 2023	**31 Dec 2023**	31 Dec 2022	31 Dec 2022	
	AED000	**AED000**	AED000	AED000	
Cash[1]	**897,814**	**897,814**	775,803	775,803	—
Items in the course of collection from other banks	**122,531**	**122,531**	123,252	123,252	—
Trading assets	**6,090,890**	**6,090,890**	6,559,399	6,559,399	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**37,146**	**37,146**	73,429	73,429	—
Derivative	**4,338,858**	**4,338,858**	6,899,854	6,899,854	—
Loans and advances to banks	**19,734,923**	**19,734,923**	24,578,939	24,578,939	—
Loans and advances to customers	**46,351,320**	**46,351,320**	50,015,493	50,015,493	—
Reverse repurchase agreements – non-trading	**25,960,050**	**25,960,050**	22,064,566	22,064,566	—
Financial investments	**29,602,340**	**29,602,340**	19,677,336	19,677,336	—
Prepayments, accrued income and other assets	**4,087,154**	**4,087,154**	3,402,442	3,402,442	—
Intangible assets	**753,276**	**753,276**	630,608	630,608	—
Deferred tax assets	**412,987**	**412,987**	534,007	534,007	—
Total Assets	**138,389,289**	**138,389,289**	135,335,128	135,335,128	
Liabilities					
Deposits from banks	**3,597,857**	**3,597,857**	11,712,584	11,712,584	—
Items in the course of transmission to other banks	**675,695**	**675,695**	588,896	588,896	—
Customer accounts	**91,445,335**	**91,445,335**	86,036,533	86,036,533	—
Repurchase agreements – non-trading	**6,666,813**	**6,666,813**	3,429,224	3,429,224	—
Trading liabilities	**3,006,755**	**3,006,755**	1,351,711	1,351,711	—
Financial liabilities designated at fair value	**3,891,876**	**3,891,876**	3,986,253	3,986,253	—
Derivative	**3,919,936**	**3,919,936**	6,416,727	6,416,727	—
Debt securities in issue	—	—	159,647	159,647	—
Accruals, deferred income and other liabilities	**6,289,232**	**6,289,232**	4,739,830	4,739,830	—
Current tax liabilities	**500,706**	**500,706**	122,789	122,789	—
Provisions	**66,679**	**66,679**	155,752	155,752	—
Total liabilities	**120,060,884**	**120,060,884**	118,699,946	118,699,946	
Shareholders' equity					
Allocated Capital	**4,495,255**	**4,495,255**	4,495,255	4,495,255	**(a)**
Legal Reserves	**2,247,628**	**2,247,628**	2,247,628	2,247,628	—
Other Reserves	**931,524**	**931,524**	766,163	766,163	—
Unremited Profit	**10,653,998**	**10,653,998**	9,126,136	9,126,136	—
Total shareholders' equity	**18,328,405**	**18,328,405**	16,635,182	16,635,182	—
Total liabilities and Head Office funds	**138,389,289**	**138,389,289**	135,335,128	135,335,128	

1 *Representation: During 2023, the reserves with CBUAE have been reclassified from 'Cash' to 'Loans and advances to banks' in the statement of financial position. This approach enables to differentiate between reserves maintained with CBUAE with certain restrictions and other unrestricted balances. The balances with no restrictions are classified as 'Cash'. Accordingly, the comparative information for 2022 has been represented to conform with the current year's presentation. Loans and advances to banks of one month or less includes reserves amounting to AED 8,282 million (2022: AED 8,428 million) at CBUAE which are subject to certain restrictions.*

Leverage ratio

The risk of excessive leverage is managed as part of HSBC UAE risk appetite framework and monitored using the leverage ratio metric.

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

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

		At	
		31 Dec 2023	30 Sep 2023
		AED000	AED000
1	Total consolidated assets as per published financial statements	**138,389,289**	146,242,791
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	**1,237,109**	868,786
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	**327,204**	173,632
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**27,821,874**	27,396,275
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital[1]	**(1,024,938)**	(1,023,009)
12	Other adjustments[1,2]	**(128,980)**	(83,702)
13	**Leverage ratio exposure measure**	**166,621,558**	173,574,773

1 Specific and general provisions which have reduced Tier 1 capital were previously reported under "Other adjustments". From June 2023 these have been disclosed separately.

2 Other adjustments consists of asset amounts deducted in determining Tier 1 capital, including Intangible assets and Interest in Suspense (IIS).

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

Leverage ratio common disclosure template (LR2)

		At	
		31 Dec 2023	30 Sep 2023
		AED000	AED000
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)[1]	**106,128,478**	115,407,804
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)[1]	**(3,316,813)**	(3,595,130)
6	(Asset amounts deducted in determining Tier 1 capital)	**(753,275)**	(728,226)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**102,058,390**	111,084,448
	Derivative exposures		
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/ or with bilateral netting)	**744,398**	1,647,772
9	Add-on amounts for PFE associated with all derivatives transactions	**4,831,568**	4,773,955
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)**	**5,575,966**	6,421,727
	Securities financing transactions		
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**30,838,125**	28,498,692
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**—**	—
16	CCR exposure for SFT assets	**327,204**	173,632
17	Agent transaction exposures	**—**	—
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**31,165,329**	28,672,324
	Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	**95,391,852**	92,906,454
20	(Adjustments for conversion to credit equivalent amounts)	**(67,569,978)**	(65,510,179)
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)**	**27,821,874**	27,396,275
	Capital and total exposures		
23	Tier 1 capital	**14,848,371**	15,794,583
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**166,621,558**	173,574,773

Leverage ratio common disclosure template (LR2) (continued)

		At	
		31 Dec 2023	30 Sep 2023
		AED000	AED000
	Leverage ratio		
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	**8.91**	9.10
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	**8.91**	9.10
26	CBUAE minimum leverage ratio requirement (%)	**3.00**	3.00
27	Applicable leverage buffers	**—**	—

1 *Specific and general provisions which have reduced Tier 1 capital are reported separately from December 2023. Comparatives for September 2023 have been adjusted to reflect the same presentation.*

On-balance sheet exposures reduced to AED 102 million as at 31 December 2023 (AED 111 million as at 30 September 2023) due to the increase in investments during the period.

Compared to 30 September 2023, higher Securities Financing Transactions (SFT's) are driven by reverse repos with Banks.

Credit risk

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 meets 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:

Credit Approval Authority

Credit Approval Authority is assigned to the HBME CEO and CRO by the HSBC Group Chief Risk Officer and HBME Board which is then sub-assigned to the Chief Credit Officer and in turn to to individual credit approvers. The quantum of approval authority that is assigned to credit approvers, is relative to their seniority and experience and aligned with the credit approval process. It further varies on borrower CRR and whether the proposals are new money, renewals or settlement limits. For limits over a certain threshold, HBME CEO / CRO approval and Group Risk concurrence are required.

Counterparty Credit Limits (including Corporates, Financial Institutions and Governments)

Credit risk limits to counterparties are approved within HBME, with Group Risk concurrence required above certain thresholds.

Cross-Border Risk

Cross border risk 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. A separate Special Credit Unit (SCU) has been established within Regional and certain Country risk teams to provide intensive management and control to rehabilitate weaker risks, assess impairment and maximize recoveries of doubtful debts.

HSBC has embedded the three lines of defence business model to achieve its strategic objectives, while managing the risk tightly within appetite. The Second line of defence teams on Credit risk i.e., UAE Wholesale Credit Risk and UAE Retail Risk teams functionally report into their Group counterparts through the Regional Chief Credit Officer for wholesale, and Regional Chief Risk Officer, 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

The Bank 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 work 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

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 updates are provided to Board Risk Committee and Group Management. Beside risk reporting, forward looking strategy and policy changes are updated to executive management.

The below table breaks down the gross carrying amount of the performing and non-performing exposures and related impairments.

Credit quality of assets (CR1)

		Gross carrying values of			*of which: ECL accounting provisions for credit losses on SA exposures*		
		Defaulted exposures (a)	Non-defaulted exposures (b)	Allowances/ Impairments (c)	*Allocated in regulatory category of Specific*	*Allocated in regulatory category of General*	Net values (a+b-c)
		AED000	AED000	AED000	*AED000*	*AED000*	AED000
1	Loans[1]	**2,882,805**	**65,455,127**	**2,251,689**	***2,023,630***	***228,059***	**66,086,243**
2	Debt securities[2]	**—**	**29,603,624**	**8,789**	***—***	***8,789***	**29,594,835**
3	Off-balance sheet exposures	**129,801**	**21,318,618**	**16,837**	***402***	***16,435***	**21,431,582**
4	**Total at 31 Dec 2023**	**3,012,606**	**116,377,369**	**2,277,315**	***2,024,032***	***253,283***	**117,112,660**
1	Loans[1,3]	3,626,945	73,798,142	2,830,655	2,552,350	278,305	74,594,432
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 at 31 Dec 2022	3,680,233	113,825,001	2,847,240	2,552,716	294,524	114,657,994

1 Loans represent loans and advances to customers and Bank's at amortized cost.

2 Debt securities includes financial investments at amortized cost and debt instruments measured at fair value through other comprehensive income.

3 Representation: During 2023, the reserves with CBUAE have been reclassified from 'Cash' to 'Loans and advances to banks' in the statement of financial position. This approach enables to differentiate between reserves maintained with CBUAE with certain restrictions and other unrestricted balances. The balances with no restrictions are classified as 'Cash'. Accordingly, the comparative information for 2022 has been represented to conform with the current year's presentation. Loans and advances to banks of one month or less includes reserves amounting to AED 8,282 million (2022: AED 8,428 million) at CBUAE which are subject to certain restrictions.

The below table identifies the changes in the Bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs

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

		At	
		31 Dec 2023	31 Dec 2022
		AED000	AED000
1	Defaulted loans and debt securities at the end of the previous reporting period	**3,626,945**	4,050,774
2	Loans and debt securities that have defaulted since the last reporting period	**686,283**	603,047
3	Returned to non-default status	**(81,082)**	(29,404)
4	Amounts written off	**(912,030)**	(797,020)
5	Other changes[1]	**(437,311)**	(200,452)
6	**Defaulted loans and debt securities at the end of the reporting period**	**2,882,805**	3,626,945

1 Other changes mainly include further lending, repayments and maturities.

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 FVOCI, 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 recognised for Expected Credit Losses ('ECL') resulting from possible default events 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 recognised 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, and so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or 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.

Write-off

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

Forbearance

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

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

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

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument. 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 with 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, which are typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

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

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

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled.

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

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

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

Further information about the 23-grade scale used for CRR can be found in the HSBC UAE *Annual Report and Accounts 2023* (page 47).

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from internally developed statistical models, 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 therefore 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.

We continue to refine the retail transfer criteria approach for certain portfolios as additional data becomes available, in order to utilise a more relative approach. These enhancements take advantage of the increase in origination-related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

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

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

Purchased or originated credit impaired

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

Movement between stages

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

Measurement of ECL

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

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

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

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

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

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

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

The ECL for wholesale stage 3 is determined primarily on an individual basis using a discounted cash flow ('DCF') 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 taken into account if it is likely that the recovery of the outstanding amount will include realisation 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. For significant cases, cash flows under up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by the Bank and judgement in relation to the likelihood of the work-out strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the Bank may use a LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

Period over which ECL is measured

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

Forward-looking economic inputs

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

In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate.

Critical estimates and judgements

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

Judgements	Estimates
– Defining what is considered to be a significant increase in credit risk – Determining the lifetime and point of initial recognition of overdrafts and credit cards – Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions – Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	The section on page 40 in HSBC UAE Annual Report and Accounts 2023 , 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

The below table presents the residual maturity breakdown of on- and off-balance sheet assets.

Breakdown of exposures by residual maturity

	31 Dec 2023										
	On Balance sheet exposure								**Off Balance sheet exposure**		
Exposures by residual maturity	**Trading assets**	**Deriva-tives**	**Cash[1]**	**Loans and advances to banks[1]**	**Loans and advances to cust-omers**	**Reverse repurchase agreements – non-trading**	**Financial invest-ments**	**Other assets[2]**	**Loan and other credit-related commit-ments**	**Financial guaran-tees and similar contracts**	**Total**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
Due within 3 months	**2,228,292**	**4,095,987**	**897,814**	**16,882,629**	**13,409,986**	**11,844,342**	**3,446,129**	**2,994,400**	**56,566,965**	**38,694,871**	**151,061,415**
Due between 3 and 12 months	**2,437,712**	**10,564**	**—**	**2,062,182**	**7,708,293**	**7,834,011**	**12,783,712**	**218,121**	**—**	**—**	**33,054,595**
Due between 1 and 5 years	**1,424,886**	**231,980**	**—**	**790,112**	**17,555,631**	**6,281,697**	**12,947,172**	**39,887**	**—**	**—**	**39,271,365**
Due after 5 years	**—**	**327**	**—**	**—**	**7,677,410**	**—**	**425,327**	**2,160,686**	**—**	**—**	**10,263,750**
Total	**6,090,890**	**4,338,858**	**897,814**	**19,734,923**	**46,351,320**	**25,960,050**	**29,602,340**	**5,413,094**	**56,566,965**	**38,694,871**	**233,651,125**
	31 Dec 2022										
Due within 3 months	2,148,460	6,516,250	775,803	22,087,291	18,372,221	16,687,219	6,189,557	2,478,064	45,157,283	33,851,505	154,263,653
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	775,803	24,578,939	50,015,493	22,064,566	19,677,336	4,763,738	45,157,283	33,851,505	214,343,916

1 *Representation: During 2023, the reserves with CBUAE have been reclassified from 'Cash' to 'Loans and advances to banks' in the statement of financial position. This approach enables to differentiate between reserves maintained with CBUAE with certain restrictions and other unrestricted balances. The balances with no restrictions are classified as 'Cash'. Accordingly, the comparative information for 2022 has been represented to conform with the current year's presentation. Loans and advances to banks of one month or less includes reserves amounting to AED 8,282 million (2022: AED 8,428 million) at CBUAE which are subject to certain restrictions.*

2 *Other assets include items in the course of collection from other banks, financial assets designated and otherwise mandatorily measured at fair value through profit or loss, accrued income, other financial assets and non financial assets.*

The table below shows the gross carrying amount of on- and off-balance sheet assets by industry types.

Breakdown of exposures by industry

	31 Dec 2023										
	On Balance sheet exposure								Off Balance sheet exposure		
Exposures by industry	Trading assets AED000	Deriva-tives AED000	Cash[1] AED000	Loans and advances to banks[1] AED000	Loans and advances to customers AED000	Reverse repurchase agreements – non-trading AED000	Financial invest-ments AED000	Other assets AED000	Loan and other credit-related commit-ments AED000	Financial guarantees and similar contracts AED000	Total AED000
Banks	**4,612,393**	**4,173,250**	**897,814**	**19,734,923**	**—**	**17,737,288**	**14,395,225**	**542,885**	**214,186**	**7,596,406**	**69,904,370**
Agriculture and Allied Activities	**—**	**—**	**—**	**—**	**6,133**	**—**	**—**	**615**	**12,977**	**46,243**	**65,968**
Construction	**—**	**4,122**	**—**	**—**	**1,859,288**	**—**	**—**	**113,530**	**4,405,227**	**7,962,443**	**14,344,610**
Electricity, Gas and Water	**39,690**	**30,216**	**—**	**—**	**2,238,030**	**—**	**—**	**18,929**	**1,826,434**	**1,962,303**	**6,115,602**
Government	**525,794**	**1,133**	**—**	**—**	**164,585**	**—**	**14,400,136**	**126,888**	**1,072,417**	**6,751**	**16,297,704**
Manufacturing	**—**	**5,053**	**—**	**—**	**8,089,270**	**—**	**—**	**366,216**	**8,988,833**	**8,355,668**	**25,805,040**
Mining & Quarrying	**22,258**	**—**	**—**	**—**	**294,084**	**—**	**—**	**1,715**	**3,469,616**	**30,064**	**3,817,737**
Non-Bank Financial Institutions	**266,188**	**83,997**	**—**	**—**	**660,698**	**7,822,265**	**—**	**81,011**	**445,278**	**257,834**	**9,617,271**
Real Estate	**—**	**—**	**—**	**—**	**3,696,144**	**—**	**—**	**14,171**	**758,959**	**229,054**	**4,698,328**
Trade	**243**	**24,742**	**—**	**—**	**6,878,102**	**—**	**—**	**778,534**	**13,972,336**	**5,229,324**	**26,883,281**
Transport, Storage & Communication	**242**	**653**	**—**	**—**	**1,855,481**	**—**	**—**	**49,680**	**2,905,788**	**2,799,304**	**7,611,148**
Other Services	**624,082**	**15,692**	**—**	**—**	**8,793,132**	**400,497**	**806,979**	**138,460**	**11,822,598**	**4,217,916**	**26,819,356**
Individuals & HNIs	**—**	**—**	**—**	**—**	**11,816,373**	**—**	**—**	**171,553**	**6,672,316**	**1,561**	**18,661,803**
Others[2]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,008,907**	**—**	**—**	**3,008,907**
Total	**6,090,890**	**4,338,858**	**897,814**	**19,734,923**	**46,351,320**	**25,960,050**	**29,602,340**	**5,413,094**	**56,566,965**	**38,694,871**	**233,651,125**
	31 Dec 2022										
Banks	5,789,089	6,051,630	775,803	24,578,939	—	14,327,421	8,972,065	506,028	156,384	6,635,463	67,792,822
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
Others[2]	—	—	—	—	—	—	—	2,248,634	—	—	2,248,634
Total	6,559,399	6,899,854	775,803	24,578,939	50,015,493	22,064,566	19,677,336	4,763,738	45,157,283	33,851,505	214,343,916

1 *Representation: During 2023, the reserves with CBUAE have been reclassified from 'Cash' to 'Loans and advances to banks' in the statement of financial position. This approach enables to differentiate between reserves maintained with CBUAE with certain restrictions and other unrestricted balances. The balances with no restrictions are classified as 'Cash'. Accordingly, the comparative information for 2022 has been represented to conform with the current year's presentation. Loans and advances to banks of one month or less includes reserves amounting to AED 8,282 million (2022: AED 8,428 million) at CBUAE which are subject to certain restrictions.*

2 *Following an internal review of industry sectors, some exposures under "Other Services" have been reclassified in 2023, no prior year restatement has been made. Compared to 31 December 2022 , exposures reported in "Other Services" have increased.*

The table below shows the gross carrying amount of on- and off-balance sheet assets by geography.

Breakdown of exposures by geographical areas

	31 Dec 2023										
	On Balance sheet exposure								Off Balance sheet exposure		
Exposures by geographical areas	Trading assets AED000	Derivatives AED000	Cash[1] AED000	Loans and advances to banks[1] AED000	Loans and advances to customers AED000	Reverse repurchase agreements – non-trading AED000	Financial investments AED000	Other assets[2] AED000	Loan and other credit-related commitments AED000	Financial guarantees and similar contracts AED000	Total AED000
United Arab Emirates	**2,904,734**	**516,887**	**897,814**	**11,093,366**	**38,633,216**	**8,336,456**	**14,159,682**	**4,782,375**	**49,971,445**	**26,409,796**	**157,705,771**
GCC (Except UAE)	**2,747,332**	**112,215**	**—**	**6,028,137**	**1,246,431**	**15,688,039**	**1,405,706**	**334,533**	**988,689**	**982,282**	**29,533,364**
Europe	**219,187**	**3,401,346**	**—**	**185,215**	**1,308,571**	**483,351**	**1,422,719**	**107,526**	**2,971,818**	**5,904,854**	**16,004,587**
Asia	**17,734**	**184,404**	**—**	**225,420**	**2,326,109**	**1,452,204**	**1,726,716**	**33,715**	**1,020,488**	**3,383,110**	**10,369,900**
Others[3]	**201,903**	**124,006**	**—**	**2,202,785**	**2,836,993**	**—**	**10,887,517**	**154,945**	**1,614,525**	**2,014,829**	**20,037,503**
Total	**6,090,890**	**4,338,858**	**897,814**	**19,734,923**	**46,351,320**	**25,960,050**	**29,602,340**	**5,413,094**	**56,566,965**	**38,694,871**	**233,651,125**
	31 Dec 2022										
United Arab Emirates	3,621,236	767,417	775,803	14,254,739	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[3]	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	775,803	24,578,939	50,015,493	22,064,566	19,677,336	4,763,738	45,157,283	33,851,505	214,343,916

1 *Representation: During 2023, the reserves with CBUAE have been reclassified from 'Cash' to 'Loans and advances to banks' in the statement of financial position. This approach enables to differentiate between reserves maintained with CBUAE with certain restrictions and other unrestricted balances. The balances with no restrictions are classified as 'Cash'. Accordingly, the comparative information for 2022 has been represented to conform with the current year's presentation. Loans and advances to banks of one month or less includes reserves amounting to AED 8,282 million (2022: AED 8,428 million) at CBUAE which are subject to certain restrictions.*

2 *Other assets include items in the course of collection from other banks, financial assets designated and otherwise mandatorily measured at fair value through profit or loss, accrued income, other financial assets and non financial assets.*

3 *Other geographical areas majorly include exposures to Unites States of America, Brazil and Egypt.*

The table below shows the gross carrying amount of Non Performing Loans and Advances, Expected Credit Losses and Write off by industry.

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

	31 Dec 2023			31 Dec 2022		
Industry	**Non Performing Loan AED000**	**ECL AED000**	**Write-off AED000**	Non Performing Loan AED000	ECL AED000	Write-off AED000
Construction	**957,666**	**906,100**	**1,559**	860,971	689,668	251,048
Electricity, Gas and Water	**131,770**	**52,469**	**—**	—	—	37,638
Manufacturing	**282,079**	**269,079**	**26,192**	450,552	293,384	7,698
Mining & Quarrying	**53,513**	**49,550**	**—**	118,295	64,533	—
Real Estate	**509,000**	**167,126**	**307,877**	969,496	541,582	24,759
Trade	**372,372**	**340,739**	**25,652**	430,587	321,356	288,405
Transport, Storage & Communication	**4,068**	**3,993**	**191**	9,001	4,453	—
Other Services	**435,141**	**128,491**	**410,331**	514,129	481,192	37,101
Individuals	**137,196**	**106,083**	**140,228**	273,914	156,182	150,370
Total	**2,882,805**	**2,023,630**	**912,030**	3,626,945	2,552,350	797,020

The table below shows the gross carrying amount of Non Performing Loans and Advances, Expected Credit Losses and Write-off by geography.

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

	31 Dec 2023			31 Dec 2022		
	Non Performing Loan	**ECL**	**Write-off**	Non Performing Loan	ECL	Write-off
Country	**AED000**	**AED000**	**AED000**	AED000	AED000	AED000
United Arab Emirates	**2,767,466**	**1,982,476**	**886,392**	3,608,577	2,542,288	758,232
GCC (Except UAE)	**—**	**—**	**—**	204	204	37,638
Europe	**216**	**47**	**—**	6,888	1,394	1,150
Asia	**—**	**—**	**7,275**	7,355	7,340	—
Others	**115,123**	**41,107**	**18,363**	3,921	1,124	—
Total	**2,882,805**	**2,023,630**	**912,030**	3,626,945	2,552,350	797,020

The tables below provide an analysis of Gross Loans and Advances to customers Held at Amortised Cost which are past due but not considered impaired.

Ageing analysis of accounting past-due exposures

	31 Dec 2023					
	Gross carrying amount		**Allowance for ECL**		**Net carrying amount**	
	1 to 29 DPD	**30 and > DPD**	**1 to 29 DPD**	**30 and > DPD**	**1 to 29 DPD**	**30 and > DPD**
Industry and Past Due	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
Loans and advances to customers held at amortised cost	**312,286**	**2,293,529**	**(44,810)**	**(1,787,726)**	**267,476**	**505,803**
– Corporate and commercial	**199,481**	**2,153,724**	**(32,453)**	**(1,696,666)**	**167,028**	**457,058**
– Personal banking	**112,780**	**139,802**	**(12,357)**	**(91,060)**	**100,423**	**48,742**
– Non-bank financial institutions	**25**	**3**	**—**	**—**	**25**	**3**
Other financial assets measured at amortised cost	**7,381**	**894**	**(1)**	**(9)**	**7,380**	**885**
	31 Dec 2022					
Loans and advances to customers held at amortised cost	351,566	3,287,172	(43,620)	(2,438,700)	307,946	848,472
– Corporate and commercial	228,535	3,096,368	(23,911)	(2,324,833)	204,624	771,535
– Personal banking	122,919	190,803	(19,709)	(113,867)	103,210	76,936
– Non-bank financial institutions	112	1	—	—	112	1
Other financial assets measured at amortised cost	3,761	554	(6)	—	3,755	554

Presentation of the above disclosure has been aligned to HSBC UAE ARA 2023, as such 2022 comparatives have been aligned.

The tables below show changes in gross carrying amount of Restructured Loans and Advances.

Breakdown of restructured exposures between impaired and not impaired exposures

	31 Dec 2023				
Impaired / Not impaired	**First lien residential mortgages**	**Other personal lending**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**
Not impaired loans	**22,632**	**4,564**	**12,695**	**—**	**39,891**
Impaired loans	**29,324**	**61,538**	**1,519,477**	**—**	**1,610,339**
TOTAL	**51,956**	**66,102**	**1,532,172**	**—**	**1,650,230**
	31 Dec 2022				
Not impaired loans	40,803	13,292	1,510,552	—	1,564,647
Impaired loans	65,307	9,189	1,775,587	—	1,850,083
TOTAL	106,110	22,481	3,286,139	—	3,414,730

Presentation of the above disclosure has been aligned to HSBC UAE ARA 2023.

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

The approach when granting credit facilities is to do so on the basis of capacity 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 in a diversified financial services organisation such as HSBC, this takes many forms. 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.

Netting

The UAE Government passed the UAE Federal Law No. 10 of 2018 (the Netting Law) on the 20 September 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 HSBC UAE has signed collateral agreements under ISDA (i.e. Credit Support Annexes "CSA") with local and international Banks. HSBC UAE considers these netting arrangements when calculating Potential Future Exposure (PFE) against clients where it has CSAs signed. Netting is not considered for

any other on balance sheet or off-balance sheet risk measurements (Wrong Way Risk, financing transactions limit monitoring where HSBC UAE enters into Repo and Reverse Repo transactions with same clients). These limits are monitored and reported at gross levels.

Collateral

The most common method of mitigating Credit risk is to take collateral. In 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 specialized 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 and Lending Policy processes are developed and 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 Loan to Value (LTV) requirement, and to manage credit risk throughout the mortgage life cycle. Insurance protection requirement is embedded in to the Credit policy to manage the life risk of borrower & physical risk on collateral properties.

Valuing collaterals

Local market conditions determine the frequency of valuation for CRE. Revaluations are sought where, for example, 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.

Policies & Procedures

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

Other Forms of Credit Risk Mitigation

In corporate lending, the Group also takes guarantees from corporates and Export Credit Agencies, Credit Default Swaps, Insurance etc. Corporates would normally provide guarantees as part of a parent/subsidiary or common parent relationship and would span several 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 and unsecured products. Granular caps and 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.

The tables below disclose the extent of use of credit risk mitigation (CRM) techniques. The disclosure includes on-balance sheet loans and advances to banks and customers at amortised cost, split into unsecured and secured by CRM techniques.

Credit risk mitigation techniques – overview (CR3)

		31 Dec 2023						
		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	**62,288,502**	**1,138,109**	***869,234***	**3,751,354**	***3,751,354***	**—**	**—**
2	Debt securities	**29,784,329**	**—**	**—**	**—**	**—**	**—**	**—**
3	**Total**	**92,072,831**	**1,138,109**	***869,234***	**3,751,354**	***3,751,354***	**—**	**—**
4	*– of which: defaulted*	***901,788***	***2,632***	**2,632**	**—**	**—**	**—**	**—**
		31 Dec 2022						
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	—	—	—	—

Increase in unsecured debt securities is mainly due higher exposures with Sovereigns.

The increase in exposures secured collateral is mainly driven by new deals backed by equity collaterals.

Exposures secured by financial guarantees increased during the period due to higher application of Insurance guarantees for trade related exposures.

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 uses 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.

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

The table below shows the split of Credit risk exposures under the standardised approach, reflecting the EAD before and after the impact of Credit Risk Mitigation (CRM) techniques and credit conversion factors ('CCF'). Securitisation positions are not included in this table.

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

		31 Dec 2023					
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	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	**35,141,478**	**1,146,954**	**35,141,478**	**3,084**	**551,895**	**2**
2	Public Sector Entities	**8,427,981**	**6,481,314**	**8,427,981**	**2,130,946**	**7,373,564**	**70**
3	Multilateral development banks	**1,939,702**	**—**	**1,939,702**	**—**	**—**	**—**
4	Banks	**12,663,241**	**8,480,129**	**12,663,241**	**4,296,113**	**6,988,268**	**41**
5	Securities firms	**—**	**—**	**—**	**—**	**—**	**—**
6	Corporates	**27,679,803**	**71,775,288**	**27,679,803**	**16,917,901**	**39,801,020**	**89**
7	Regulatory retail portfolios	**4,683,694**	**6,745,127**	**4,683,694**	**24,897**	**3,497,671**	**74**
8	Secured by residential property	**7,212,199**	**11,993**	**7,212,199**	**—**	**2,964,260**	**41**
9	Secured by commercial real estate	**—**	**—**	**—**	**—**	**—**	**—**
10	Equity Investment in Funds (EIF)	**—**	**—**	**—**	**—**	**—**	**—**
11	Past-due loans	**711,618**	**414,155**	**711,618**	**414,155**	**1,159,478**	**103**
12	Higher-risk categories	**—**	**—**	**—**	**—**	**—**	**—**
13	Other assets[1]	**2,937,250**	**—**	**2,937,250**	**—**	**2,560,923**	**87**
14	**Total**	**101,396,966**	**95,054,960**	**101,396,966**	**23,787,096**	**64,897,079**	**52**
		31 Dec 2022					
1	Sovereigns and their central banks	35,725,387	882,062	35,725,387	21,371	379,738	1
2	Public Sector Entities	8,508,055	7,602,314	8,508,055	2,476,460	5,475,150	50
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	39
5	Securities firms	—	—	—	—	—	—
6	Corporates	24,242,926	57,223,183	24,242,926	14,897,496	35,295,720	90
7	Regulatory retail portfolios	4,645,349	5,624,669	4,645,349	1,963	3,585,618	77
8	Secured by residential property	7,721,896	12,533	7,721,896	—	3,163,533	41
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	111
12	Higher-risk categories	—	—	—	—	—	—
13	Other assets[1]	2,690,011	—	2,690,011	—	2,635,353	98
14	Total	99,042,599	79,159,583	99,042,599	21,482,659	58,077,339	48

1 *Includes fixed assets and other non financial assets.*

The tables below provide a breakdown of credit risk exposures under the standardised approach by asset class and risk weight.

Exposures by asset classes and risk weights (CR5)

		31 Dec 2023								
	Risk weight	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
	Asset classes	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
1	Sovereigns and their central banks	**32,549,986**	**2,553,353**	**—**	**—**	**—**	**41,224**	**—**	**—**	**35,144,563**
2	Public Sector Entities	**322,955**	**1,936,770**	**—**	**2,625,983**	**—**	**5,673,218**	**—**	**—**	**10,558,926**
3	Multilateral development banks	**1,939,702**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,939,702**
4	Banks	**848**	**5,849,439**	**—**	**10,582,777**	**—**	**524,884**	**1,405**	**—**	**16,959,353**
5	Securities firms	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
6	Corporates	**2,881,606**	**635,822**	**—**	**2,157,578**	**—**	**36,736,915**	**364**	**2,185,418**	**44,597,703**
7	Regulatory retail portfolios	**186,374**	**—**	**—**	**493**	**4,097,199**	**424,525**	**—**	**—**	**4,708,591**
8	Secured by residential property	**—**	**—**	**6,446,221**	**—**	**231,579**	**534,399**	**—**	**—**	**7,212,199**
9	Secured by commercial real estate	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
10	Equity Investment in Funds (EIF)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
11	Past-due loans	**26,772**	**—**	**—**	**—**	**—**	**978,047**	**120,954**	**—**	**1,125,773**
12	Higher-risk categories	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
13	Other assets[1]	**897,740**	**122,521**	**—**	**—**	**—**	**1,504,036**	**—**	**412,953**	**2,937,250**
14	**Total**	**38,805,983**	**11,097,905**	**6,446,221**	**15,366,831**	**4,328,778**	**46,417,248**	**122,723**	**2,598,371**	**125,184,060**
		31 Dec 2022								
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[1]	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

1 *Includes fixed assets and other non financial assets.*

Counterparty Credit risk (CCR)

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.

Wrong Way Risk 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.

HSBC UAE 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 included in the MRA section of this report (page 31).

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

Wrong Way Risk 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 Case by Case (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).

The tables below analyse Counterparty Credit Risk (CCR) exposures by approach for derivatives and securities financing transactions.

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

	31 Dec 2023					
	Replacement cost	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
SA-CCR (for derivatives)	**531,713**	**3,120,795**		**1.4**	**5,113,511**	**2,770,811**
Internal Model Method (for derivatives and SFTs)			—	—	—	—
Simple Approach for credit risk mitigation (for SFTs)					—	—
Comprehensive Approach for credit risk mitigation (for SFTs)					**31,049,004**	**762,071**
VaR for SFTs					—	—
Total						**3,532,882**
	31 Dec 2022					
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

Lower RWAs mainly driven by exposures in Foreign exchange and Interest rate transactions under OTC derivatives and SFT's.

The table below sets out exposures and RWAs related to CVA regulatory calculations with the breakdown by standardised approach.CVAs represent the risk of mark-to-market losses on the expected counterparty risk to OTC derivatives and SFTs which are subject to fair-value accounting. Certain qualifying central counterparties are exempt from CVA.

Credit valuation adjustment (CVA) capital charge (CCR2)

		At			
		31 Dec 2023		31 Dec 2022	
		EAD post-CRM	**RWA**	EAD post-CRM	RWA
		AED000	**AED000**	AED000	AED000
1	All portfolios subject to the Standardised CVA capital charge	**5,440,715**	**1,135,737**	7,838,802	1,755,763
2	All portfolios subject to the Simple alternative CVA capital charge	**—**	**—**	—	—

The tables below provide information on the risk-weighting of CCR exposures under the standardised approach by regulatory portfolio.

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

	31 Dec 2023							
Risk weight	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure**
Regulatory portfolio	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
Sovereigns	47,999	—	—	—	—	—	—	47,999
Public Sector Entities (PSEs)	542,074	25,574	5,626	—	198,810	—	—	772,084
Multilateral development banks (MDBs)	—	—	—	—	—	—	—	—
Banks	21,380,754	1,046,745	3,527,911	—	345,712	—	—	26,301,122
Securities firms	—	—	—	—	—	—	—	—
Corporates	7,897,140	106,559	103,587	—	934,023	—	—	9,041,309
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[1]	4,847,489	—	—	—	—	—	—	4,847,489
Total	**34,715,456**	**1,178,878**	**3,637,124**	**—**	**1,478,545**	**—**	**—**	**41,010,003**
	31 Dec 2022							
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[1]	6,080,172	—	—	—	—	—	—	6,080,172
Total	31,612,647	2,171,531	5,085,037	—	2,225,562	—	—	41,094,777

1 *Includes Trading debt securities , netting derivatives OTC, Settlement accounts.*

The table below provides the breakdown of types of collateral posted or received related to derivative transactions.

Composition of collateral for CCR exposure (CCR5)

	31 Dec 2023					
	Collateral used in derivative transactions				**Collateral used in SFTs**	
	Fair value of collateral received		**Fair value of posted collateral**		**Fair value of collateral received**	**Fair value of posted collateral**
	Segregated	**Unsegregated**	**Segregated**	**Unsegregated**		
	AED000	**AED000**	**AED000**	**AED000**	**AED000**	**AED000**
Cash – domestic currency	—	—	—	—	—	—
Cash – other currencies	—	1,328,968	—	107,384	—	—
Domestic sovereign debt	—	—	—	—	777,831	—
Government agency debt	—	—	—	—	15,111,889	—
Corporate bonds	—	—	—	—	10,023,879	—
Equity securities	—	—	—	—	—	—
Other collateral[1]	—	—	—	—	3,906,369	—
Total	**—**	**1,328,968**	**—**	**107,384**	**29,819,968**	**—**
	31 Dec 2022					
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[1]	—	—	—	—	2,001,777	—
Total	—	979,933	—	32,281	25,461,205	—

1 *Other collateral includes collaterals from Banks.*

The table below provides break down of the credit derivative exposures.

Credit derivative exposures (CCR6)

	Protection bought	**Protection sold**	Protection bought	Protection sold
	31 Dec 2023	**31 Dec 2023**	31 Dec 2022	31 Dec 2022
	AED000	**AED000**	AED000	AED000
Notionals				
Single-name credit default swaps	**459,063**	**84,468**	16,526	106,503
Index credit default swaps	**—**	**—**	—	—
Total return swaps	**—**	**—**	—	—
Credit options	**—**	**—**	—	—
Other credit derivatives	**—**	**—**	—	—
Total notionals	**459,063**	**84,468**	16,526	106,503
Fair values				
Positive fair value (asset)	**—**	**509**	469	392
Negative fair value (liability)	**(9,033)**	**—**	—	(853)

Market risk

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 HSBC UAE these limits are reviewed at least on an annual basis and formally delegated.

As per the Bank's policy, it is the responsibility of the 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 the Bank operates in, most of the Market risk is liked 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 mandate 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.

Limit Proposal, Approvals and Set up

Market risk limits are reviewed at least on a annual basis with a semi-annual review 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 HSBC UAE.

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 HSBC UAE senior management, including Head of Trading, Head of Markets Treasury, Head of MSS, Head of Traded risk and the Head of WCMR (as the delegate for Principal Office Manager, the CEO). The approved limits are presented to the entity 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 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 and 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 reordered 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 isk (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.

The table below provides the components of RWAs under the Standardised Approach for Market risk.

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

		RWA	RWA
		31 Dec 2023	31 Dec 2022
		AED000	AED000
1	General Interest rate risk (General and Specific)	**5,050,667**	4,701,903
2	Equity risk (General and Specific)	**—**	—
3	Foreign exchange risk	**3,219,348**	844,163
4	Commodity risk	**—**	—
6	Options	**—**	—
5	Simplified approach	**—**	—
6	Delta-plus method	**—**	—
7	Scenario approach	**—**	—
8	Securitisation	**—**	—
9	**Total**	**8,270,015**	5,546,066

Increase in Market risk RWAs is driven by short position in GCC currencies compared to previous quarter.

Operational risk

General qualitative information on a Bank’s operational risk framework (OR1)

HSBC UAE 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 includes technology, data and cyber security risk), financial reporting & tax, people and model risks. Climate risk has impacts across the risk taxonomy, and risk stewards accountability includes the oversight of climate risk impacts to their respective risk types. The RMF includes detailed requirements to identify, assess, manage, aggregate, report and govern 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 UAE 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 identifying, assessing, managing and reporting key existing and emerging risks that they own for their business or function in line with the risk appetite, and Control Owners accountable for operating controls and the control monitoring processes to assess and report control effectiveness. These first line roles are supported by Chief Control Officers who are accountable for driving the effective governance and management of non-financial risks in the first line of defence.

The second line of defence provides subject matter expertise, advice, guidance and review and challenge of 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 second line of defence is independent of the risk-taking activities undertaken by the first line of defence. Operational and Resilience Risk is a combined Risk Stewardship and Oversight function, which ensures governance and management of Operational Risk, Resilience Risk and Operational Resilience through the delivery and embedding of effective frameworks, and continuous oversight and assurance of end-to-end processes, risks and controls.

Internal Audit, the third line of defence, has responsibility for independently assessing whether risk management, governance and internal control processes are designed and operating effectively.

HSBC UAE adopts the Group’s Risk Appetite Framework. It consists of qualitative statements and quantitative metrics covering financial and non-financial risks with defined Risk Appetite and Tolerance thresholds. The thresholds are set for HBME UAE and reviewed periodically (at least annually) to ensure they remain appropriate. UAE RMM reviews and approves for local use the cascaded measures as well as other appetite measures as appropriate. The monitoring of these metrics is completed monthly including path to green actions defined for the metrics moved outside appetite and tolerance.

HSBC UAE 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. 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 HBME is based on the HBME’s historical loss data and HBME 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 HSBC UAE 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.

Liquidity

Liquidity risk management (LIQA)

Overview

At 31 December 2023, the Bank was above regulatory minimum liquidity and funding levels. The bank maintains sufficient unencumbered liquid assets to comply with local and regulatory requirements. The Bank further consider an internal liquidity metric, which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Management of Liquidity and Funding risk

Liquidity coverage ratio ('LCR')

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

Net stable funding ratio ('NSFR')

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

Depositor concentration and wholesale market term funding maturity concentration

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

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

Liquid assets

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

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

Further details in respect of the Bank's Liquidity and Funding ratios are set out on HSBC UAE Annual report and accounts page 64.

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.

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

The table below 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
		31 Dec 2023	**31 Dec 2023**	30 Sep 2023	30 Sep 2023
1	High Quality Liquid Assets	**AED000**	**AED000**	AED000	AED000
1.1	Physical cash in hand at the bank + balances with the CBUAE	**9,180,177**		12,911,907	
1.2	UAE Federal Government Bonds and Sukuks	**13,960,844**		16,940,311	
	Sub Total (1.1 to 1.2)	**23,141,021**	**23,141,021**	29,852,218	29,852,218
1.3	UAE local governments publicly traded debt securities	**160,940**		205,499	
1.4	UAE Public sector publicly traded debt securities	**10,645**		—	
	Sub total (1.3 to 1.4)	**171,585**	**171,585**	205,499	205,499
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	**4,115,335**	**4,114,191**	5,305,601	5,304,498
1.6	**Total**	**27,427,941**	**27,426,797**	35,363,318	35,362,215
2	Total liabilities		**119,994,200**		128,802,924
3	Eligible Liquid Assets Ratio (ELAR) (%)		**22.86**		27.45

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The table below presents the breakdown of the Bank's Advances to Stable Resources Ratio (ASRR), as per the CBUAE Liquidity Regulations.

Advances to Stables Resource Ratio (ASRR)

		At	
		31 Dec 2023	30 Sep 2023
		AED000	AED000
1	**Computation of Advances**		
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	**46,583,977**	46,385,601
1.2	Lending to non-banking financial institutions	**8,747,291**	6,778,147
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	**336,708**	116,627
1.4	Interbank Placements	**19,297,284**	14,230,820
1.5	**Total Advances**	**74,965,260**	67,511,195
2	**Calculation of Net Stable Resources**		
2.1	Total capital + general provisions	**18,578,347**	17,651,612
	Deduct:		
2.1.1	Goodwill and other intangible assets	**753,276**	728,226
2.1.2	Fixed Assets	**880,088**	875,392
2.1.3	Funds allocated to branches abroad	**—**	—
2.1.5	Unquoted Investments	**538,945**	—
2.1.6	Investment in subsidiaries, associates and affiliates	**—**	—
2.1.7	**Total deduction**	**2,172,309**	1,603,618
2.2	**Net Free Capital Funds**	**16,406,038**	16,047,994
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	**3,667,781**	3,731,713
2.3.3	Refinancing of Housing Loans	**—**	—
2.3.4	Borrowing from non-Banking Financial Institutions	**3,991,942**	3,588,886
2.3.5	Customer Deposits	**75,391,449**	74,937,920
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	**776,518**	1,126,048
2.3.7	**Total other stable resources**	**83,827,690**	83,384,567
2.4	**Total Stable Resources (2.2+2.3.7)**	**100,233,728**	99,432,561
3	**Advances to Stable Resources Ratio (1.5/ 2.4*100) (%)**	**74.79**	67.90

Interest rate risk in the banking book (IRRBB)

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 includes:

- 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.
- Managing 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. UAE ALCO governs the internal transfer pricing framework.ALCO defines the transfer pricing curve, reviews, and annually approves the transfer pricing policy, including hedge assumptions used for products where there is no defined maturity. UAE policies are in line with HSBC group's 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 capital. This is achieved using a few risk management tools including using earnings and valuation metrics which includes but is not limited to Net interest Income (NII) Sensitivity and Economic Value (EVE) Sensitivity.

Earnings and valuation metrics are used to measure and monitor the Interest rate risk in banking book. These metrics are prepared on a quarterly basis, with the capability to measure more frequently in periods of stress / interest rate volatility.

EVE is calculated for six Basel prescribed scenarios. For the Qualitative disclosures +/-200 bps parallel shock is used.

A standard set of assumptions are used (i.e., for EVE metric disclosure and for internal assessment of capital adequacy). The assumptions are reviewed, challenged, and then approved in line with our governance.

Net Interest Income (NII) Structural Hedging Program dictates the hedging and income stabilisation activities in the UAE branch. Risk is transfer priced from Businesses to Treasury and hedged externally to stabilise income sensitivity using a mix of Hold-to-Collect Bonds and Interest Rate Swaps.

Economic Value of equity (EVE) excludes commercial margin from the cash flows and is discounted at risk free rate.

The average repricing maturity of non-maturity deposits is based on assessment of their stability which takes in to account historical analysis and projections.

Prepayment risk is continually assessed on historical data and trends are highlighted to Senior Management and ALCO.

Currently there are no products with an explicit option risk in the UAE balance sheet. However, behavioural optionality such as prepayment of fixed rate loans, are assessed regularly and reported to ALCO.

NII and its sensitivity is calculated for material currencies.

Quantitative information

- Average repricing maturity assigned to NMDs 1.2 years – (2022 - 1.2 years)
- Longest repricing maturity assigned to NMDs 5 years – (2022 - 5 years)

The table below provide information on the bank's changes in economic value of equity and net interest income under the prescribed interest rate shock scenarios.

Quantitative information on IRRBB (IRRBB1)

	ΔEVE	**ΔNII**	ΔEVE	ΔNII
	31 Dec 2023		31 Dec 2022	
Period	**AED000**	**AED000**	AED000	AED000
Parallel up	**(733)**	**638**	540	953
Parallel down	**841**	**(791)**	(547)	(1,178)
Steepener	**(183)**	**—**	204	—
Flattener	**(57)**	**—**	(311)	—
Short rate up	**(321)**	**—**	276	—
Short rate down	**166**	**—**	(584)	—
Tier 1 capital	**14,848,371**		13,263,903	

Remuneration policy (REMA)

The remuneration approach for HSBC Bank Middle East Ltd (HBME), UAE is aligned to HSBC Group reward strategy, proposition and complies with regulatory requirement of Group's parent regulator and UAE local regulations.

Our pay strategy is designed to attract and motivate the very best people, regardless of gender, ethnicity, age, disability, or any other factor unrelated to performance or experience.

We aim to attract and motivate the very best people who are committed to maintaining a long-term career with us and to performing their role in the long-term interests of stakeholders.

The following key principles guide our remuneration decisions. We aim to:

- Focus on total compensation with a strong link between pay and performance
- Judge not only what is achieved, but also how it is achieved, and whether it is in line with the HSBC Values
- Operate a thorough performance management and HSBC Values assessment process
- Recognise and reward our employees for outstanding positive behaviour
- Design our policy to align compensation with long-term stakeholder interests
- Apply consequence management to strengthen the alignment between risk and reward

The HSBC Group Remuneration Committee oversees the Group's reward policy and its application to Group businesses. All members of the Committee are independent non-executive Directors of HSBC Holdings plc. Information on the Committee and Terms of Reference are available on https://www.hsbc.com/who-we-are/leadership-and-governance/board-committees.

At HBBC UAE senior management executive committee (EXCO) and HBME Chairman's committee discharges local governance requirements.

Our approach to workforce reward

Rewarding colleagues

Our goal is to deliver a unique and exceptional experience to energise colleagues to perform at their best and to sustain our performance. This is critical to strengthening our ability to attract, retain and motivate the people we need, in competitive labour markets where employee expectations continue to evolve. Our approach is centered on our purpose and values, and our reward principles and commitments are:

- We will reward our employees responsibly through fixed pay security and protection through core benefits, a competitive total compensation opportunity, pay equity, and a more inclusive and sustainable benefits proposition over time.
- We will recognise employees' success through our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities.
- We will support our employees to grow through our proposition beyond pay, with a focus on future skills and development, support for well-being, and flexibility.

Pay is an important part of our overall proposition. Our focus is improving transparency and clarity for colleagues, so they understand better how we make pay decisions.

For 2024, we will introduce a new variable pay structure for junior and middle management colleagues, providing more clarity around the variable pay levels for on-target performance, while retaining flexibility to differentiate outcomes for performance.

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.
- Is 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.
- It represents a higher proportion of total compensation for more junior colleagues and is generally delivered in cash on a monthly basis.

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.
- Variable pay 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.
- For employees identified as Material Risk Taker (MRT) under Group MRT regulation and UAE Central Bank requirement the variable pay is capped at 200% of annual Fixed Pay.

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.

New hire indicative variable pay

- Support recruitment of key individuals.
- New hire indicative variable pay is awarded in exceptional circumstances and is limited to an individual's first year of employment only, and is subject to a number of factors (such as the respective performance of the Group, business unit and individual), 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 awards and the timing of the hire during the performance year.

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 (33% vesting on the first and second anniversaries of grant and 34% on the third).
- For those identified as Group MRTs, awards are generally subject to a minimum 40% deferral (60% for awards of £500,000 or more) over a minimum period of four years. A deferral period of five years is applied for senior management and individuals in specified roles with managerial responsibilities as prescribed under the PRA and FCA remuneration rules and seven years for individuals in PRA-designated senior management functions.
- In line with the PRA and FCA remuneration rules, and in compliance with local regulations, the deferral requirement for Group MRTs is not applied to individuals where their total variable pay is £44,000 or less and variable pay is not more than one-third of total compensation. For these individuals, the Group standard deferral applies.
- Individuals based outside the UK and identified as MRTs under local regulations, would be subject to local requirements where necessary.
- All deferred awards are subject to malus provisions, subject to compliance with local laws. Awards granted to MRTs on or after 1 January 2015 and awards granted to non- MRTs on or after 1 January 2022 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, a minimum 50% of the deferred awards is in HSBC shares and the rest into deferred cash. Local regulatory requirements would also apply where necessary.
- For some employees in our asset management business, where required by the relevant regulations, at least 50% of the deferred award is linked to fund units reflective of funds managed by those entities, with the remaining portion in deferred cash awards.
- Variable pay awards made in HSBC shares or linked to relevant fund units granted to Group MRTs are generally subject to a one-year retention period post-vesting. Group MRTs who are subject to a five-year deferral period, except senior management or individuals in PRA- and FCA-designated senior management functions, have a six-month retention period applied to their awards.

- Where an employee is subject to more than one regulation, the requirement specific to the sector and/or country in which the individual is working is applied. For employees identified as MRT under UAE Central Bank regulation, Group Standard Deferral applies and for those identified under both Group and UAE MRT requirement stringent of the two applies.
- Deferred award for MRT identified under UAE Central Bank regulations is made in HSBC shares.

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:

- Reviewing and approving the principles, parameters and governance of the Group's remuneration framework as applicable to the Group's workforce, with input from subsidiary board committees as necessary in accordance with the regulatory requirements in effect.
- Satisfying itself that the framework is aligned with the business strategy, risk appetite, culture and values, and long-term sustainable success of the Group, interest of the shareholders and is free from any form of bias.
- Reviewing and approving the aggregate variable pay pool to be distributed to the Group's workforce; individual remuneration package where it exceeds an amount specified by the Committee from time to time (the 'Committee Individual Threshold') and any awards that require regulatory approval.
- Overseeing the wider workforce value proposition to ensure this supports the Group's business strategy, goals and long-term sustainable success.
- Assessing that there are effective safeguards in place to ensure that the remuneration framework complies with regulatory and other legislative requirements that the Group (and, where relevant, its subsidiaries) are subject to, e.g. 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).
- Satisfying itself that the remuneration framework aligns with the Group's purpose, strategy, values and promotes inclusion, employee engagement and wellbeing; takes into account all types of risks, liquidity and capital levels; is consistent with and promotes the sound and effective risk management of the Group; does not encourage risk-taking that exceeds the level of tolerated risk of the Group; and does not encourage any company within the Group to bear any risk that would undermine its ability to comply with any regulatory obligation.
- Ensuring that remuneration for employees in Audit, Internal Control, Risk and Compliance functions is determined independently of other business areas, and no employee is involved in deciding their own remuneration.
- 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 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 reviews its terms of reference annually and its own effectiveness as well as the quality of information it receives and recommends any necessary change.

The Committee also receives inputs and advice from external consultants, Deloitte provided independent advice to the Committee. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee also received advice from Willis Towers Watson on market data and remuneration trends.

Link between risk, performance and reward

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

The 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; and
- 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 scorecards

- Assessment of individual performance is made with reference to clear and relevant financial and non-financial objectives. Objectives for senior management take into account appropriate measures linked to sustainability risks, such as: reduction in carbon footprint; facilitating financing to help clients with their transition to net zero; employee diversity; and risk and compliance measures.
- A mandatory global risk and compliance objective is included for all other employees. 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

- Group policy is for control functions staff to report into their respective function. Remuneration decisions for senior functional roles are made by the global function head.
- The performance and reward of individuals in control functions, including risk and compliance colleagues, 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.
- Remuneration is carefully benchmarked with the market and internally to ensure it is set at an appropriate level.
- The Committee is responsible for approving the remuneration for the Group Chief Risk and Compliance Officer and Group Head of Internal Audit.

Variable pay adjustments and conduct recognition

- Variable pay awards may be adjusted downwards in circumstances including:
  - detrimental conduct, including conduct that brings HSBC into disrepute;
  - involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and
  - non-compliance with the values-aligned behaviours and other mandatory requirements or policies.
- Rewarding positive conduct may take the form of use of our global recognition programme, At Our Best, or positive adjustments to variable pay awards.

Malus & Clawback Policy

Malus can be applied to unvested deferred awards (up to 100% of 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.

Clawback can be applied to vested or paid awards granted to MRTs on or after 1 January 2015 (and awards granted to non-MRTs on or after 1 January 2022) for a period of seven years, extended to 10 years for employees in PRA and FCA designated senior management functions in the event of ongoing internal/regulatory investigation at the end of the seven-year period. 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; and
- a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures.
- Clawback can also be applied to vested or paid awards granted to designated Executive Officers as defined by the US Securities and Exchange Commission ('SEC') for a period of three years in the event of an accounting restatement due to material noncompliance with any financial reporting requirement under the US securities laws.

Sales incentives:

- 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

We identify individuals as MRTs based on qualitative and quantitative criteria set out in the PRA's and FCA's Remuneration Rules. Our identification process is underpinned by the following key principles:

- MRTs are identified at Group, HSBC Bank (consolidated) and HSBC UK Bank level.
- MRTs are also identified at other solo regulated entity level as required by the regulations. For HBME UAE in addition to identifying MRT per Group policy MRT are also identified as per UAE Central Bank Corporate Governance Regulations & Standards.
- Under the UAE Central Bank Requirement, the following roles but not limited to were considered for identification of MRT:
  - UAE CEO and Senior Management which includes Heads of Businesses.
  - Heads of Control Functions.
  - Head of Credit risk.
  - Members of Risk in credit approval authority with a limit / authority as defined by Group threshold.
  - Traders over a Group defined mandate/ threshold.

- When identifying an MRT, HSBC considers a colleague's role within its matrix management structure. The global business and function that an individual works within takes precedence, followed by the geographical location in which they work.
- We also identify additional MRTs based on our own internal criteria, which include compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under the Remuneration Rules.
- Remuneration structure for MRTs identified under each regulation is aligned to prescribed MRT Compensation rules.

The tables below provides the remuneration awarded during the financial year for senior management and material risk takers.

Remuneration awarded during the financial year (REM1)

	Remuneration Amount		**Senior Management**	**Other Material Risk-takers**	Senior Management	Other Material Risk-takers
			31 Dec 2023	**31 Dec 2023**	31 Dec 2022	31 Dec 2022
			AED000	**AED000**	AED000	AED000
1	Fixed Remuneration	Number of employees	**12**	**3**	11	—
2		Total fixed remuneration (3 + 5 + 7)	**21,752**	**3,186**	18,241	—
3		*of which: cash-based*	***21,752***	***3,186***	*18,241*	—
4		*of which: deferred*	**—**	**—**	—	—
5		*of which: shares or other share-linked instruments*	**—**	**—**	—	—
6		*of which: deferred*	**—**	**—**	—	—
7		*of which: other forms*	**—**	**—**	—	—
8		*of which: deferred*	**—**	**—**	—	—
9	Variable Remuneration	Number of employees	**11**	**3**	11	—
10		Total variable remuneration (11 + 13 + 15)	**17,439**	**257**	14,715	—
11		*of which: cash-based*	***9,115***	***257***	*7,763*	—
12		*of which: deferred*	***4,141***	**—**	*3,532*	—
13		*of which: shares or other share-linked instruments*	***8,324***	**—**	*6,951*	—
14		*of which: deferred*	***4,235***	**—**	*3,601*	—
15		*of which: other forms*	**—**	**—**	—	—
16		*of which: deferred*	**—**	**—**	—	—
17	**Total Remuneration (2+10)**		**39,191**	**3,443**	32,956	—

Senior Management and Other Material Risk-takers have been redefined during 2023.

The table below provide the special payments provide during the year.

Special payments (REM2)

	Guaranteed Bonuses		**Sign on Awards**		**Severence Payments**	
	Number of employees	**Total amount**	**Number of employees**	**Total amount**	**Number of employees**	**Total amount**
Senior Management	**—**	**—**	**—**	**—**	**—**	**—**
Other material risk-takers	**—**	**—**	**—**	**—**	**1**	**264**

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

The tables below provide the differed remuneration details during the year.

Deferred remuneration (REM3)

	31 Dec 2023				
Deferred and retained remuneration	**Total amount of outstanding deferred remuneration**	***of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment***	**Total amount of amendment during the year due to ex post explicit adjustments**	**Total amount of amendment during the year due to ex post implicit adjustments**	**Total amount of deferred remuneration paid out in the financial year**
	AED000	***AED000***	**AED000**	**AED000**	**AED000**
Senior management	**17,365**	***10,458***	**—**	**1,104**	**4,285**
Cash	**6,907**	—	—	—	**1,286**
Shares	**10,035**	***10,035***	—	**1,027**	**2,790**
Cash-linked instruments	—	—	—	—	—
Other[1]	**422**	***422***	—	**78**	**209**
Other material risk-takers	**835**	***499***	—	**52**	**267**
Cash	**336**	—	—	—	**121**
Shares	**499**	***499***	—	**52**	**146**
Cash-linked instruments	—	—	—	—	—
Other[1]	—	—	—	—	—
Total	**18,200**	***10,957***	—	**1,157**	**4,552**
	31 Dec 2022				
Senior management	12,375	*7,627*	—	439	6,665
Cash	4,748	—	—	—	2,269
Shares	7,627	*7,627*	—	439	4,396
Cash-linked instruments	—	—	—	—	—
Other[1]	—	—	—	—	—
Other material risk-takers	—	—	—	—	—
Cash	—	—	—	—	—
Shares	—	—	—	—	—
Cash-linked instruments	—	—	—	—	—
Other[1]	—	—	—	—	—
Total	12,375	*7,627*	—	439	6,665

1 Other includes share-linked instruments.

To align with group reporting deferred remuneration for December 2022 has been restated.

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