

HSBC Bank Middle East Limited - UAE Operations

Pillar 3 Disclosures at 30 September 2024

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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 Committee on Banking Supervision ('Basel') III framework is structured around three 'pillars', with Pillar 1 minimum capital requirements and the 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 resources, risk exposures and risk management processes, and hence their capital adequacy.

Our Pillar 3 disclosures as at 30 September 2024 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.

Comparatives and references

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

Applicability of Disclosures

The below listed Pillar 3 disclosure is not applicable for HSBC UAE, hence have not been reported.

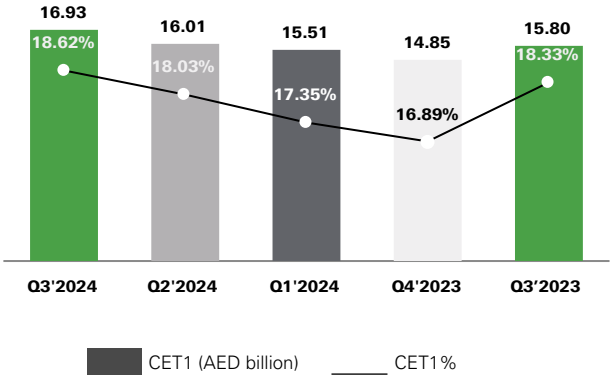
Topic	Table	Information Overview
Liquidity	LIQ1	Liquidity Coverage Ratio

Highlights

CET1 capital and ratio

Common Equity Tier 1 ('CET1') capital was AED 16.93 billion as of 30 September 2024 and our ratio was 18.62%, up by 59 basis points compared with 18.03% as at 30 June 2024. This was mainly driven by Q3 2024 profits of AED 897 million, partially offset by an increase in RWAs, refer below.

CET1 capital and ratio

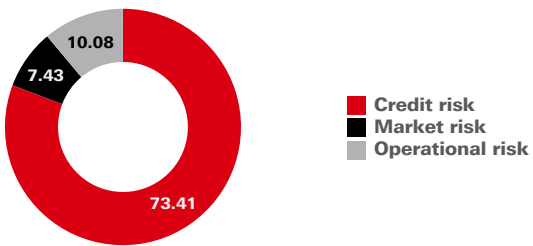


Risk Weighted Assets ('RWAs')

Our RWAs are AED 90.92 billion, an increase of AED 2.16 billion compared with 30 June 2024. This was driven by an overall increase in Market risk RWAs which were higher by AED 1.87 billion due to the increase in the trading book, coupled with higher FX short positions in GCC currencies. In addition, Credit risk RWAs increased mainly due to Corporate exposures, partially offset by a lower exposures to Government Related Enterprises ('GREs').

RWAs by risk type

AED 90.92 billion (2024 – AED 88.76 billion)



Liquidity

The Bank's Eligible Liquid Asset Ratio ('ELAR') was 26.41% as at 30 September 2024, above the minimum regulatory requirement of 10%.

The Bank's Advance to Stable Resources Ratio ('ASRR') was 65.84% as at 30 September 2024, which is below regulatory maximum of 100%.

Liquidity

	Q3 2024	Q2 2024
ELAR (%)	26.41	25.94
ASRR (%)	65.84	67.39

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 Systemically 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)

	30 Sep 2024 AED000	30 Jun 2024 AED000	31 Mar 2024 AED000	31 Dec 2023 AED000	30 Sep 2023 AED000
Available capital (amounts)					
1 Common Equity Tier 1 ('CET1')	16,929,229	16,006,068	15,505,027	14,848,371	15,794,583
1a Fully loaded ECL accounting model ¹	16,929,229	16,006,068	15,505,027	14,848,371	15,794,583
2 Tier 1	16,929,229	16,006,068	15,505,027	14,848,371	15,794,583
2a Fully loaded ECL accounting model Tier 1 ¹	16,929,229	16,006,068	15,505,027	14,848,371	15,794,583
3 Total capital	17,846,815	16,919,986	16,399,185	15,717,942	16,675,476
3a Fully loaded ECL accounting model total capital ¹	17,846,815	16,919,986	16,399,185	15,717,942	16,675,476
Risk-weighted assets (amounts)					
4 Total risk-weighted assets ('RWA') ²	90,925,070	88,765,559	89,377,554	87,918,444	86,173,946
Risk-based capital ratios as a percentage of RWA					
5 Common Equity Tier 1 ratio (%)	18.62	18.03	17.35	16.89	18.33
5a Fully loaded ECL accounting model CET1 (%) ¹	18.62	18.03	17.35	16.89	18.33
6 Tier 1 ratio (%)	18.62	18.03	17.35	16.89	18.33
6a Fully loaded ECL accounting model Tier 1 ratio (%) ¹	18.62	18.03	17.35	16.89	18.33
7 Total capital ratio (%)	19.63	19.06	18.35	17.88	19.35
7a Fully loaded ECL accounting model total capital ratio (%) ¹	19.63	19.06	18.35	17.88	19.35
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 (%) ²	0.05	0.04	—	—	—
10 Bank D-SIB additional requirements (%)	—	—	—	—	—
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.55	2.54	2.50	2.50	2.50
12 CET1 available after meeting the bank's minimum capital requirements (%)	9.13	8.56	7.85	7.38	8.85
Leverage Ratio³					
13 Total leverage ratio measure	182,229,244	186,868,572	183,657,209	166,621,558	173,574,773
14 Leverage ratio (%) (row 2/row 13)	9.29	8.57	8.44	8.91	9.10
14a Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.29	8.57	8.44	8.91	9.10
14b Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.29	8.57	8.44	8.91	9.10
ELAR⁴					
21 Total HQLA	34,507,587	35,612,405	36,984,207	27,426,797	35,362,215
22 Total liabilities	130,680,571	137,312,430	135,492,054	119,994,200	128,802,924
23 Eligible Liquid Assets Ratio ('ELAR') (%)	26.41	25.94	27.30	22.86	27.45
ASRR⁴					
24 Total available stable funding	106,211,991	105,749,366	108,225,203	100,233,728	99,432,561
25 Total Advances	69,928,474	71,265,780	70,168,665	74,965,260	67,511,195
26 Advances to Stable Resources Ratio (%)	65.84	67.39	64.84	74.79	67.90

1 No transitional arrangement has been applied from Q4 2022 onwards.

2 CCyB has been disclosed from 30 June 2024, comparatives have not been restated.

3 Leverage ratio – Refer to leverage disclosure for further details (page 6).

4 ELAR and ASRR – Refer to liquidity disclosure for further details (page 8).

The quarter-on-quarter movements in the table above are explained by the following.

- Available capital – Compared to 30 June 2024, CET1 capital increased by 5.77%, mainly due to the inclusion of Q3 2024 profit of AED 897 million.
- RWAs – The total RWAs increased by AED 2.16 billion when compared to 30 June 2024 due to the following;
 - increase in Market Risk RWAs is mainly driven by higher FX short positions in GCC currencies and the increase in Trading book exposures.
 - increase in Credit risk RWAs is mainly due to higher Corporate exposures, partially offset by a lower exposures to Government Related Enterprises ('GREs').

Risk Weighted Assets

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 Risk Weighted Assets (OV1)

		Minimum capital requirements ¹		Minimum capital requirements ¹	
		RWA	RWA	RWA	RWA
		30 Sep 2024	30 Sep 2024	30 Jun 2024	30 Jun 2024
		AED000	AED000	AED000	AED000
1	Credit risk (excluding counterparty credit risk)	69,000,087	7,245,009	68,424,003	7,184,520
2	of which: standardised approach ('SA')	69,000,087	7,245,009	68,424,003	7,184,520
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')	3,454,787	362,753	3,712,275	389,789
7	of which: standardised approach for counterparty credit risk	3,454,787	362,753	3,712,275	389,789
8	of which: Internal Model Method ('IMM')	—	—	—	—
9	of which: other CCR	—	—	—	—
10	Credit valuation adjustment ('CVA')	951,965	99,956	977,161	102,602
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	—	—	—	—
16	Securitisation exposures in the banking book	—	—	—	—
17	of which: securitisation internal ratings-based approach ('SEC-IRBA')	—	—	—	—
18	of which: securitisation external ratings-based approach ('SEC-ERBA')	—	—	—	—
19	of which: securitisation standardised approach ('SEC-SA')	—	—	—	—
20	Market risk	7,435,501	780,728	5,569,390	584,786
21	of which: standardised approach ('SA')	7,435,501	780,728	5,569,390	584,786
22	of which: internal models approach ('IMA')	—	—	—	—
23	Operational risk	10,082,730	1,058,687	10,082,730	1,058,687
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)	90,925,070	9,547,132	88,765,559	9,320,384

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

The quarter-on-quarter RWA movements in the table above are explained by risk type below.

- Credit risk (excluding CCR) – The increase is mainly due to the increase in the Corporate asset class, partially offset by a reduction Government Related Enterprises ('GRE').
- Counterparty Credit risk – The reduction is due to Secured Finance Transactions('SFTs').
- Market risk – The increase in Market Risk RWAs is mainly driven by higher FX short positions in GCC currencies and the increase trading book exposure.

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)

	30 Sep 2024 AED000	30 Jun 2024 AED000
1 Total consolidated assets as per published financial statements ¹	149,837,368	155,488,783
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	1,914,607	2,123,321
9 Adjustment for securities financing transactions (ie repos and similar secured lending)	701,226	484,858
10 Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	31,501,455	30,485,085
11 Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(1,326,921)	(1,344,086)
12 Other adjustments ²	(398,491)	(369,389)
13 Leverage ratio exposure measure	182,229,244	186,868,572

1 HSBC UAE does not publish quarterly financials statements.

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

Pillar 3 Disclosures at 30 September 2024

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	
		30 Sep 2024 AED000	30 Jun 2024 AED000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions ('SFTs'), but including collateral)	119,483,444	122,624,104
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	(3,162,549)	(3,119,154)
6	(Asset amounts deducted in determining Tier 1 capital)	(765,216)	(756,020)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	115,555,679	118,748,930
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*1.4	628,282	818,056
9	Add-on amounts for PFE associated with all derivatives transactions*1.4	4,385,453	4,737,000
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)	5,013,735	5,555,057
Securities financing transactions			
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	29,457,149	31,594,642
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
16	CCR exposure for SFT assets	701,226	484,858
17	Agent transaction exposures	—	—
18	Total securities financing transaction exposures (sum of rows 14 to 17)	30,158,375	32,079,500
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	98,964,753	98,128,636
20	(Adjustments for conversion to credit equivalent amounts)	(67,463,298)	(67,643,551)
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 20)	31,501,455	30,485,085
Capital and total exposures			
23	Tier 1 capital	16,929,229	16,006,068
24	Total exposures (sum of rows 7, 13, 18 and 22)	182,229,244	186,868,572
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	9.29	8.57
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	9.29	8.57
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.

The quarter-on-quarter movements in the table above are explained by the following comments.

- Total exposures – decreased to AED 182.29 billion as at 30 September 2024 (AED 186.87 billion as at 30 June 2024) due to the lower On-balance sheet exposures, driven by lower investments and balance due from other banks compared to last quarter and reduction in Securities Financing Transactions ('SFTs') and derivatives.

Liquidity

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
	30 Sep 2024 AED000	30 Sep 2024 AED000	30 Jun 2024 AED000	30 Jun 2024 AED000
1 High Quality Liquid Assets				
1.1 Physical cash in hand at the bank + balances with the CB UAE	13,735,532		12,740,149	
1.2 UAE Federal Government Bonds and Sukuks	14,863,700		16,803,500	
Sub Total (1.1 to 1.2)	28,599,232	28,599,232	29,543,649	29,543,649
1.3 UAE local governments publicly traded debt securities	732,505		726,641	
1.4 UAE Public sector publicly traded debt securities	—		—	
Sub total (1.3 to 1.4)	732,505	732,505	726,641	726,641
1.5 Foreign Sovereign debt instruments or instruments issued by their respective central banks	5,175,850	5,175,850	5,343,807	5,342,115
1.6 Total	34,507,587	34,507,587	35,614,097	35,612,405
2 Total liabilities		130,680,571		137,312,430
3 Eligible Liquid Assets Ratio ('ELAR') (%)		26.41		25.94

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 30 Sep 2024 AED000	30 Jun 2024 AED000
1 Computation of Advances		
1.1 Net Lending (gross loans - specific and collective provisions + interest in suspense)	50,304,835	49,248,786
1.2 Lending to non-banking financial institutions	7,208,156	7,044,961
1.3 Net Financial Guarantees & Stand-by LC (issued - received)	(152,881)	903,494
1.4 Interbank Placements	12,568,364	14,068,539
1.5 Total Advances	69,928,474	71,265,780
2 Calculation of Net Stable Resources		
2.1 Total capital + general provisions	19,102,308	17,871,959
Deduct:		
2.1.1 Goodwill and other intangible assets	765,216	756,020
2.1.2 Fixed Assets	862,002	870,724
2.1.3 Funds allocated to branches abroad	—	—
2.1.5 Unquoted Investments	—	546,563
2.1.6 Investment in subsidiaries, associates and affiliates	—	—
2.1.7 Total deduction	1,627,218	2,173,307
2.2 Net Free Capital Funds	17,475,090	15,698,652
2.3 Other stable resources:		
2.3.1 Funds from the head office	—	—
2.3.2 Interbank deposits with remaining life of more than 6 months	4,451,508	5,866,127
2.3.3 Refinancing of Housing Loans	—	—
2.3.4 Borrowing from non-Banking Financial Institutions	3,867,626	3,642,766
2.3.5 Customer Deposits	79,806,106	80,232,536
2.3.6 Capital market funding/ term borrowings maturing after 6 months from reporting date	611,661	309,285
2.3.7 Total other stable resources	88,736,901	90,050,714
2.4 Total Stable Resources (2.2+2.3.7)	106,211,991	105,749,366
3 Advances to Stable Resources Ratio (1.5/2.4*100) (%)	65.84	67.39

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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