HSBC Bank Middle East Limited - UAE Operations

Financial Statements 2024



Contents

- 2 Independent auditor's report to the Chief Executive Officer of HSBC Bank Middle East Limited – UAE Operations
- 4 Financial Statements
- 4 Income statement
- **5** Statement of comprehensive income
- 6 Statement of financial position
- 7 Statement of cash flows
- 8 Statement of changes in equity
- 9 Notes on the financial statements
- **9** 1 Legal status and principal activities
- **9** 2 Basis of preparation and material accounting policies
- 18 3 Net fee income
- 18 4 Operating profit/(loss)
- 18 5 Employee compensation and benefits
- 19 6 Auditors' remuneration
- **20** 7 Tax
- 21 8 Segment analysis
- 22 9 Trading assets
- 22 10 Fair values of financial instruments carried at fair value
- 25 11 Fair values of financial instruments not carried at fair value
- 26 12 Derivatives
- 28 13 Financial investments
- 29 14 Assets charged as security for liabilities, and collateral accepted as security for assets
- 29 15 Joint arrangement
- 29 16 Prepayments, accrued income and other assets
- 29 17 Intangible assets
- 29 18 Customer Accounts
- **30** 19 Trading liabilities
- **30** 20 Financial liabilities designated at fair value
- 30 21 Accruals, deferred income and other liabilities
- 30 22 Provisions
- 31 23 Maturity analysis of assets, liabilities and off-balance sheet commitments
- 32 24 Offsetting of financial assets and financial liabilities
- 33 25 Risk management
- 59 26 Contingent liabilities, contractual commitments and guarantees
- 60 27 Finance lease receivables
- 60 28 Legal proceedings and regulatory matters
- **60** 29 Related party transactions
- 62 30 Events after the balance sheet date
- 63 Additional information
- 63 Top and emerging risks
- **64** Liquidity and funding ratios
- 65 Capital requirement
- 66 Corporate governance report
- 71 Annual Report of the Internal Shari'ah Supervision Committee of HSBC Bank Middle East Limited, UAE Branch

Presentation of Information

This document comprises the Annual Report and Accounts 2024 for HSBC Bank Middle East Limited – UAE Operations ('the Bank'). It contains the Financial Statements together with the Auditor's report and Additional information. References to 'HSBC' or 'the HSBC Group 'or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Refer the HSBC Group Annual Report and Accounts 2024 for disclosures related to Environment, Social and Governance ('ESG').



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Independent Auditor's Report

To the Chief Executive Officer of HSBC Bank Middle East Limited – UAE Operations
Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HSBC Bank Middle East Limited – UAE Operations (the "Bank"), which comprise the statement of financial position as at 31 December 2024, and the related income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements from note 1 to 30, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

Other Information

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

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

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

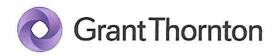
Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent Auditor's Report

To the Chief Executive Officer of HSBC Bank Middle East Limited - UAE Operations (continued) Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions. misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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P.O.Box: 41255 Abu Dhabi - U.A.E

Dr. Osama El-Bakry Registration No: 935

GRANT THORNTO Abu Dhabi, United Arab Emirates

Income statement

for the year ended 31 December

| | | 2024 | 2023 |
|--|-------|-------------|-------------|
| | Notes | AED000 | AED000 |
| Net interest income | | 4,550,523 | 4,229,931 |
| - interest income | | 6,993,832 | 6,201,132 |
| - interest expense | | (2,443,309) | (1,971,201) |
| Net fee income | 3 | 1,377,016 | 1,242,302 |
| - fee income | | 1,985,965 | 1,661,292 |
| - fee expense | | (608,949) | (418,990) |
| Net income from financial instruments held for trading or managed on a fair value basis | | 900,933 | 1,167,827 |
| Changes in fair value of designated debt and related derivatives | | (7,505) | 10,724 |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | | 10,451 | _ |
| Gains less losses from financial investments | | 2,835 | (93,946) |
| Other operating income | | 439,214 | 366,933 |
| Net operating income before change in expected credit losses and other credit impairment charges | | 7,273,467 | 6,923,771 |
| Change in expected credit losses and other credit impairment charges | | (542,567) | (173,175) |
| Net operating income | | 6,730,900 | 6,750,596 |
| Employee compensation and benefits | 5 | (1,722,898) | (1,693,649) |
| General and administrative expenses | | (1,255,656) | (1,120,487) |
| Depreciation and impairment of property, plant and equipment and right-of-use assets | | (78,700) | (82,613) |
| Amortisation and impairment of intangible assets | | (199,985) | (155,154) |
| Total operating expenses | | (3,257,239) | (3,051,903) |
| Profit/(loss) before tax | | 3,473,661 | 3,698,693 |
| Tax expense | 7 | (814,810) | (593,356) |
| Profit/(loss) for the year | | 2,658,851 | 3,105,337 |
| Attributable to: | | | |
| - shareholder of the parent company | | 2,658,851 | 3,105,337 |
| Profit/(loss) for the year | | 2,658,851 | 3,105,337 |

The accompanying notes on pages 9 to 62 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December

| | 2024 | 2023 |
|---|-----------|-----------|
| | AED000 | AED000 |
| Profit for the year | 2,658,851 | 3,105,337 |
| Other comprehensive income/(expense) | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | |
| Debt instruments at fair value through other comprehensive income | 22,450 | 174,979 |
| - fair value gains/(losses) | 28,931 | 303,177 |
| - fair value (gains)/losses transferred to the income statement on disposal | (2,835) | (93,946) |
| expected credit losses recognised in income statement | (4,422) | 6,650 |
| - income taxes | 776 | (40,902) |
| Cash flow hedges | (46,759) | 57,484 |
| - fair value gains/(losses) | (163,383) | 70,297 |
| - fair value (gains)/losses reclassified to the income statement | 111,455 | - |
| - income taxes | 5,169 | (12,813) |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Remeasurement of defined benefit liability | (54,772) | (11,693) |
| Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit | | |
| risk | (14,583) | (2,451) |
| Other comprehensive income/(expense) for the year, net of tax | (93,664) | 218,319 |
| Total comprehensive income/(expense) for the year | 2,565,187 | 3,323,656 |

The accompanying notes on pages 9 to 62 form an integral part of these financial statements.

Statement of financial position

at 31 December 2024

| | | 2024 | 2023 |
|---|-------|-------------|-------------|
| | Notes | AED000 | AED000 |
| Assets | | | |
| Cash | | 713,194 | 897,814 |
| Trading assets | 9 | 6,467,554 | 6,090,890 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | | 38,672 | 37,146 |
| Derivatives | 12 | 3,577,132 | 4,338,858 |
| Loans and advances to banks | 23 | 26,276,807 | 19,734,923 |
| Loans and advances to customers | 23 | 49,904,946 | 46,351,320 |
| Reverse repurchase agreements – non-trading | 23 | 29,761,567 | 25,960,050 |
| Financial investments | 13 | 31,203,765 | 29,602,340 |
| Prepayments, accrued income and other assets ¹ | 16 | 4,752,138 | 4,209,685 |
| Intangible assets | 17 | 775,306 | 753,276 |
| Deferred tax assets | 7 | 432,934 | 412,987 |
| Total assets | | 153,904,015 | 138,389,289 |
| Liabilities | | | |
| Deposits by banks | 23 | 3,714,710 | 3,597,857 |
| Customer accounts | 18 | 102,997,556 | 91,445,335 |
| Repurchase agreements – non-trading | | 10,796,349 | 6,666,813 |
| Trading liabilities | 19 | 2,834,721 | 3,006,755 |
| Financial liabilities designated at fair value | 20 | 3,145,132 | 3,891,876 |
| Derivatives | 12 | 2,919,179 | 3,919,936 |
| Accruals, deferred income and other liabilities ¹ | 21 | 6,988,276 | 6,964,927 |
| Current tax liabilities | | 794,522 | 500,706 |
| Provisions | 22 | 517,947 | 66,679 |
| Total liabilities | | 134,708,392 | 120,060,884 |
| Head Office funds | | | |
| Allocated capital | | 4,495,255 | 4,495,255 |
| Legal reserve | | 2,247,628 | 2,247,628 |
| Other reserves | | 789,182 | 931,524 |
| Unremitted profits | | 11,663,558 | 10,653,998 |
| Total Head Office funds | | 19,195,623 | 18,328,405 |
| Total liabilities and Head Office funds | | 153,904,015 | 138,389,289 |

The accompanying notes on pages 9 to 62 form an integral part of these financial statements.

Mohammed Al Marzougi

Chief Executive Officer

Ibrahim Hayatuddini

Chief Financial Officer

¹ In 2023 'Items in the course of collection from other banks' (AED 123 million) was presented on the face of the balance sheet but are now reported within 'Prepayments, accrued income and other assets' in the Annual Report and Accounts 2024. Similarly, 'Items in the course of transmission to other banks' (AED 676 million) are now presented within 'Accruals, deferred income and other liabilities'.

Statement of cash flows

for the year ended 31 December

| | 2024 | 2023 |
|---|--------------|-------------|
| | AED000 | AED000 |
| Cash flows from operating activities | | |
| Profit/(loss) before tax | 3,473,661 | 3,698,693 |
| Adjustments for non-cash items | | |
| Net (gain)/loss from investing activities | (3,285) | 94,326 |
| Depreciation, amortisation and impairment | 278,685 | 237,771 |
| Share-based payment expense | 35,643 | 39,375 |
| Change in expected credit losses gross of recoveries and other credit impairment charges | 591,709 | 231,711 |
| Provisions including pensions | 110,342 | 96,011 |
| Other non-cash items included in profit before tax | (731,503) | 559,812 |
| Elimination of exchange differences ¹ | 64,397 | (30,199 |
| Changes in operating assets and liabilities | | |
| Change in other assets | (779,233) | (890,418 |
| Change in net trading securities and derivatives | (839,657) | 2,258,055 |
| Change in loans and advances to banks and customers | (3,891,810) | 3,392,938 |
| Change in reverse repurchase agreements – non-trading | 3,269,890 | (8,392,315 |
| Change in financial assets designated at fair value | (1,526) | 36,283 |
| Change in other liabilities | (84,594) | 1,461,485 |
| Change in deposits by banks and customer accounts | 11,669,074 | (2,705,925 |
| Change in debt securities in issue | _ | (159,647 |
| Change in financial liabilities designated at fair value | (761,327) | (96,827 |
| Change in repurchase agreements – non-trading | 4,129,536 | 3,237,589 |
| Tax paid | (535,022) | (148,136 |
| Net cash generated from/(used in) operating activities | 15,994,980 | 2,920,582 |
| Cash flows from investing activities | | |
| Purchase of financial investments | (25,394,618) | (36,701,542 |
| Proceeds from the sale and maturity of financial investments | 23,469,131 | 26,722,342 |
| Net cash flows from the purchase and sale of property, plant and equipment | (34,780) | (53,222 |
| Net investment in intangible assets | (222,030) | (277,834 |
| Net cash generated from/(used) in investing activities | (2,182,297) | (10,310,256 |
| Cash flows from financing activities | | |
| Transfer of profits to Head Office | (1,700,000) | (1,586,023 |
| Net cash generated from/(used in) financing activities | (1,700,000) | (1,586,023 |
| Net increase in cash and cash equivalents | 12,112,683 | (8,975,697 |
| Cash and cash equivalents at 1 Jan | 20,775,422 | 29,720,920 |
| Exchange differences in respect of cash and cash equivalents ¹ | (23,433) | 30,199 |
| Cash and cash equivalents at 31 Dec | 32,864,672 | 20,775,422 |
| Cash and cash equivalents comprise: | | -, -, |
| - Cash | 713,194 | 897,814 |
| Loans and advances to banks of one month or less | 21,270,035 | 14,889,669 |
| Reverse repurchase agreement with banks of one month or less | 10,994,061 | 3,922,654 |
| Cash collateral, net settlement accounts and items in course of collection from/transition to other banks | (578,682) | (416,989 |
| Treasury bills, other bills and certificates of deposit of less than three months | 466,064 | 1,482,274 |
| Total cash and cash equivalents ¹ | 32,864,672 | 20,775,422 |

Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.
 Loans and advances to banks of one month or less includes reserves amounting to AED 7,446 million (2023: AED 8,282 million) at CBUAE which are subject to

The accompanying notes on pages 9 to 62 form an integral part of these financial statements.

certain restrictions.

Statement of changes in equity

for the year ended 31 December

| | | | 0 | ther reserves | | | |
|--|-----------|-----------|-----------|---------------|-----------|-------------|-------------|
| | | _ | Financial | | | | |
| | | | assets at | Cash flow | | | Total Head |
| | Allocated | Legal | FVOCI | hedging | Other | Unremitted | Office |
| | capital | reserve | reserves | reserve | reserves | profits | funds |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| At 1 Jan 2024 | 4,495,255 | 2,247,628 | (89,115) | 9,304 | 1,011,335 | 10,653,998 | 18,328,405 |
| Profit/(loss) for the year | _ | _ | _ | _ | _ | 2,658,851 | 2,658,851 |
| Other comprehensive income/(expense) – net of tax | _ | _ | 22,450 | (46,759) | _ | (69,355) | (93,664) |
| debt instruments at fair value through other | | | | | | | |
| comprehensive income | _ | _ | 22,450 | - | _ | - | 22,450 |
| - cash flow hedges | _ | _ | - | (46,759) | _ | _ | (46,759) |
| - changes in fair value of financial liabilities designated | | | | | | | |
| at fair value arising from changes in own credit risk | - | - | - | - | _ | (14,583) | (14,583) |
| remeasurement of defined benefit asset/liability | _ | - | - | - | _ | (54,772) | (54,772) |
| Total comprehensive income for the year | | | 22,450 | (46,759) | | 2,589,496 | 2,565,187 |
| Transfer of profit to Head Office | | | | | | (1,700,000) | (1,700,000) |
| Transfer related to impairment reserve requirements ^{2,3} | | | | | (118,033) | 118,033 | |
| Other movements | | | | | | 2,031 | 2,031 |
| At 31 Dec 2024 | 4,495,255 | 2,247,628 | (66,665) | (37,455) | 893,302 | 11,663,558 | 19,195,623 |
| | | | | | | | |
| At 1 Jan 2023 | 4,495,255 | 2,247,628 | (264,094) | (48,180) | 1,205,534 | 8,999,039 | 16,635,182 |
| Profit/(loss) for the year | | | | | | 3,105,337 | 3,105,337 |
| Other comprehensive income/(expense) – net of tax | | | 174,979 | 57,484 | | (14,144) | 218,319 |
| debt instruments at fair value through other | | | | | | | |
| comprehensive income | _ | _ | 174,979 | _ | _ | - | 174,979 |
| - cash flow hedges | _ | _ | _ | 57,484 | _ | - | 57,484 |
| - changes in fair value of financial liabilities designated | | | | | | (0.454) | (0.454) |
| at fair value arising from changes in own credit risk | _ | _ | _ | _ | _ | (2,451) | (2,451) |
| remeasurement of defined benefit asset/liability | _ | _ | _ | _ | _ | (11,693) | (11,693) |
| Total comprehensive income for the year | | | 174,979 | 57,484 | | 3,091,193 | 3,323,656 |
| Transfer of profit to Head Office | | | | | | (1,586,023) | (1,586,023) |
| Transfer related to impairment reserve requirements ^{2,3} | | | | | (194,199) | 194,199 | |
| Other movements | | | | | | (44,410) | (44,410) |
| At 31 Dec 2023 | 4,495,255 | 2,247,628 | (89,115) | 9,304 | 1,011,335 | 10,653,998 | 18,328,405 |

¹ In accordance with UAE Federal Law No. 32 of 2021 as amended, a minimum of 5% of the profit for the year is to be transferred to a non-distributable legal reserve. Such transfers may cease when the legal reserve becomes equal to 50% of the allocated capital. Since the legal reserve is equal to 50% of the Bank's allocated capital, profit was not appropriated to the legal reserve during the year (2023: Nil).

The accompanying notes on pages 9 to 62 form an integral part of these financial statements.

² During the year, Central Bank of UAE ('CBUAE') issued Credit Risk Management Standards ('CRMS') which is effective for the year ending 31 December 2024. Pursuant to the CRMS, prior period impairment reserve – Specific of AED 233 million is released into the unremitted profits and AED 115 million is transferred during the year from unremitted profits to meet minimum impairment reserve - General requirement.

³ For further details refer Note - Capital requirements under 'Additional information' on page 65.

Notes on the financial statements

1 Legal status and principal activities

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

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

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

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

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

2 Basis of preparation and material accounting policies

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

Standards adopted during the year ended 31 December 2024

There were no new standards, amendments to standards or interpretations that had a significant effect on the Bank in 2024. Accounting policies have been applied consistently.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRS Accounting Standards that are effective from 1 January 2025. Management expects they will have an insignificant effect, when adopted, on the financial statements of the Bank.

Other amendments and new IFRS Accounting Standards

Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'

In May 2024, the IASB issued amendments to 'IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on, or after, 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The group is undertaking an assessment of the potential impact.

IFRS 18 'Presentation and Disclosure in Financial Statements'

In April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about an entity's financial performance. It will replace IAS 1 'Presentation of Financial Statements' but carries over many requirements from that IFRS Accounting Standard unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While IFRS 18 will not change recognition criteria or measurement bases, it may have an impact on presenting information in the financial statements, in particular the income statement and to a lesser extent the cash flow statement. The Bank is currently assessing impacts and data readiness before developing a more detailed implementation plan.

(c) Going concern

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

(d) Foreign currencies

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

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date, except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(e) Critical estimates and judgements

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

(f) Segmental analysis

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

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

Products and services

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

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

Following HSBC Group's organisational announcement in October 2024, effective from 1 January 2025 the Bank's operating segments will comprise of two new businesses – Corporate and Institutional Banking, and International Wealth and Premier Banking – along with Corporate Centre. These will replace our previously reported operating segments up to 31 December 2024.

2.2 Summary of material accounting policies

(a) Income and expenses

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the Bank for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

Non-interest income and expense

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

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

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

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

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

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

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading activities, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income and interest expense, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments which fail the solely payments of principal and interest ('SPPI') test.

(b) Valuation of financial instruments

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

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Bank manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS Accounting Standard offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 10, 'Fair values of financial instruments carried at fair value'.

Critical estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements

- An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5% of the instrument's valuation is driven by unobservable inputs.
- 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

Estimates

 Details on the Bank's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in Note 10.

(c) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The Bank accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

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

Financial assets are reclassified only when the business model for their management changes. Such changes, which are expected to be infrequent, are determined by senior management as a result of external or internal changes and must be significant to operations and demonstrable to external parties. Reclassifications are applied prospectively from the first day of the first reporting period following the change of business model. Where a financial asset is reclassified from a hold-to-collect business model into a fair value through other comprehensive income business model, its fair value is measured at the date of reclassification. Any gain or loss arising from a difference between the previous amortised cost and fair value is recognised in other comprehensive income.

Non-trading reverse repurchase, repurchase and similar agreements

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

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

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

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

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

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

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

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

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(f) Derivatives

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

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

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. Hedged items that have affected profit or loss are primarily recorded within interest income. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

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

(g) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an 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. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that 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 restructurings. 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.

Notes on the financial statements

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

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

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

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle PDs and through-the-cycle migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, and for all loans the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

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

Further information about the 23-grade scale used for CRR can be found on page 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 possible default events 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 risks.

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 IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows:

| Model | Regulatory capital | IFRS 9 |
|-------|--|--|
| PD | Represents long-run average PD throughout a full economic cycle Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy) May be subject to a sovereign cap | Represents current portfolio quality and performance, adjusted for the impact of multiple forward-looking macroeconomic scenarios Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy) |
| EAD | Cannot be lower than current balance Based on regulatory conversion factors | Amortisation captured for term products Future drawdown captured for revolving products Corporate EADs are calculated using conversions factors that are estimated by a corporate EAD model. The corporate EAD model is based on historical observed data and adjusted for the impact of multiple forward-looking macroeconomic scenarios Banks and Sovereign exposures are based on regulatory conversion factors (same as regulatory capital conversion factors) |
| 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 appropriate index (minimum 9%) All collection costs included | - LGD based on historical observed loss data and adjusted for the impact of multiple forward-looking macroeconomic scenarios - Floors are applied, (minimum 1% LGD for Cash and Sovereign guarantee covered exposures and minimum 5% LGD for other exposures) - Discounted using the original effective interest rate - Only costs associated with selling collateral and certain third party costs are included |
| Other | | Discounted back from point of default to balance sheet date |

While 12-month PDs are recalibrated from IRB 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. 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. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 39.

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 sections on pages 39 to 42, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(h) Employee compensation and benefits

Share-based payments

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

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates. These expenses and payables are recognised by the Bank towards HSBC who maintains required reserves.

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

Post-employment benefit plans

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

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

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

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

Critical estimates and judgements

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

| Judgements | Estimates |
|------------|--|
| | A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. |
| | The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. |
| | Key assumptions used in calculating the defined benefit pension obligation for the principal plan and the sensitivity of the calculation to different assumptions are described in Note 5. |

(i) Tax

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

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

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

In assessing the probability and sufficiency of future taxable profit, management considers the availability of evidence to support the recognition of deferred tax assets, taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. Management also considers the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

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

Critical estimates and judgements

The recognition of deferred tax assets depends on judgements and estimates.

| Judgements | Estimates |
|---|--|
| Specific judgements supporting deferred tax assets are described in Note 7. | - The recognition of deferred tax assets is sensitive to estimates of future cash flows projected for periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of cash flows thereafter, on which forecasts of future taxable profit are based, and which affect the expected recovery periods and the pattern of utilisation of tax losses and tax credits. See Note 7 for further detail. |

(i) Provisions, contingent liabilities and guarantees

Provisions

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

Critical estimates and judgements

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

Judgements Estimates

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

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Financial guarantee contracts

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

(k) Joint arrangements

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

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

(I) Impairment of non-financial assets

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

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

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

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

3 Net fee income

| | 2024 | 2023 |
|---------------------------|-----------|-----------|
| | AED000 | AED000 |
| Credit facilities | 121,890 | 97,223 |
| Remittances | 134,376 | 124,706 |
| Cards | 619,860 | 532,738 |
| Global custody | 60,351 | 58,668 |
| Account services | 84,745 | 76,984 |
| Import/exports | 144,712 | 145,265 |
| Insurance agency | 53,033 | 45,278 |
| Corporate/project finance | 123,774 | 31,803 |
| Performance/tender bonds | 153,079 | 139,009 |
| Unit trusts | 123,008 | 91,671 |
| Others ¹ | 367,137 | 317,947 |
| Total Fee Income | 1,985,965 | 1,661,292 |
| Fee Expense | (608,949) | (418,990) |
| Net Fee Income | 1,377,016 | 1,242,302 |

¹ Others include related party transaction fee of AED 198 million (2023: AED 180 million). Refer Note 29 for further details on Related Party Transactions.

4 Operating profit/(loss)

Operating profit is stated after the following items:

| | 2024 | 2023 |
|--|-------------|-------------|
| | AED000 | AED000 |
| Income | | |
| Interest recognised on financial assets measured at amortised cost | 5,898,459 | 5,321,032 |
| Interest recognised on financial assets measured at FVOCI | 1,093,502 | 872,654 |
| Fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) | 1,788,071 | 1,481,660 |
| Expense | | |
| Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value | (1,850,954) | (1,328,305) |
| Fees payable on financial liabilities that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) | (466,166) | (337,382) |
| Gains/(losses) | | |
| Gains/(losses) on disposal of property, plant and equipment, intangible assets and non-financial investments | 450 | (380) |

5 Employee compensation and benefits

| | 2024 | 2023 |
|--------------------------|-----------|-----------|
| | AED000 | AED000 |
| Wages and salaries | 1,612,466 | 1,594,783 |
| Social security costs | 25,529 | 22,942 |
| Post-employment benefits | 84,903 | 75,924 |
| Year ended 31 Dec | 1,722,898 | 1,693,649 |

Share-based payments

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

| | 2024 | 2023 |
|---|--------|--------|
| | AED000 | AED000 |
| Restricted share awards and other plans | 35,643 | 39,375 |
| Year ended 31 Dec | 35,643 | 39,375 |

Defined benefit pension plans

Net liability under defined benefit pension plans^{1,2}

| | 2024 | 2023 |
|---|----------|----------|
| | AED000 | AED000 |
| At 1 Jan | 597,742 | 589,298 |
| Current service cost | 60,220 | 56,247 |
| Interest cost on the net defined benefit liability | 25,237 | 19,568 |
| Re-measurement effects recognised in other comprehensive income – actuarial gains | 54,772 | 11,693 |
| Other movements | (307) | 2,127 |
| Benefits paid | (65,572) | (81,191) |
| At 31 Dec | 672,092 | 597,742 |

¹ There are no plan assets under defined benefit pension plans as at 31 Dec 2024 (31 Dec 2023: nil).

Post-employment defined benefit plans' principal actuarial financial assumptions

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

Key actuarial assumptions for the principal plan

| | | | Combined rate of resignation |
|----------------------|---------------|-------------------------|------------------------------|
| | | Poto of nov | and |
| | Discount rate | Rate of pay increase | employment termination |
| | % | % | % |
| United Arab Emirates | | | |
| At 31 Dec 2024 | 3.39 | 6 | 9.9 |
| At 31 Dec 2023 | 4.46 | 6 | 11.7 |

The Bank determines discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of current average yields of long-term term interest rates applicable for the duration of the liabilities.

The effect of changes in key assumptions on the principal plan

| | United Arab En | nirates |
|---|----------------|---------|
| | 2024 | 2023 |
| | AED000 | AED000 |
| Discount rate | | |
| Change in scheme obligation at year end from a 25bps increase | (9,829) | (8,053) |
| Change in scheme obligation at year end from a 25bps decrease | 10,099 | 8,277 |
| Change in following year scheme cost from a 25bps increase | (182) | (164) |
| Change in following year scheme cost from a 25bps decrease | 194 | 172 |
| Rate of pay increase | | |
| Change in scheme obligation at year end from a 25bps increase | 10,179 | 8,485 |
| Change in scheme obligation at year end from a 25bps decrease | (9,963) | (8,302) |
| Change in following year scheme cost from a 25bps increase | 1,594 | 1,411 |
| Change in following year scheme cost from a 25bps decrease | (1,558) | (1,380) |

6 Auditors' remuneration

Fees payable by the Bank

| | 2024 | 2023 |
|--|--------|--------|
| | AED000 | AED000 |
| Fees for HSBC Bank Middle East Limited – UAE Operations statutory audit ¹ | 1,194 | 1,102 |
| - relating to current year | 1,194 | 1,102 |
| Fees for other services provided to the Bank | 946 | 658 |
| audit-related assurance services² | 882 | 474 |
| - other assurance services | 64 | 184 |
| Year ended 31 Dec | 2,140 | 1,760 |

¹ Fees payable for the statutory audit of the financial statements of the Bank.

² These are payable to employees immediately after resignation.

² Including services for assurance and other services that relate to statutory and regulatory fillings, including interim reviews.

7 Tax

Tax expense

| | 2024 | 2023 |
|---|----------|---------|
| | AED000 | AED000 |
| Current tax | 828,838 | 520,467 |
| - for this year | 811,709 | 501,453 |
| - adjustments in respect of prior years | 17,129 | 19,014 |
| Deferred tax | (14,028) | 72,889 |
| origination and reversal of temporary differences | (5,578) | 72,889 |
| - adjustments in respect of prior years | (8,450) | _ |
| Year ended 31 Dec | 814,810 | 593,356 |

Tax reconciliation

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

| | 2024 | 2024 | | |
|---|-----------|------|-----------|-------|
| | AED000 | % | AED000 | % |
| Profit/(loss) before tax | 3,473,661 | | 3,698,693 | |
| Tax expense | | | | |
| Taxation at UAE corporate tax rate of 20% (2023: 20%) | 694,732 | 20.0 | 739,739 | 20.0 |
| Adjustments in respect of prior period liabilities | 8,678 | 0.2 | 13,397 | 0.4 |
| Change in tax rates or laws | 72,647 | 2.1 | _ | _ |
| Non-taxable income and gains | _ | _ | (177,427) | (4.8) |
| Permanent disallowables | 15,779 | 0.5 | 7,687 | 0.2 |
| Local taxes and overseas withholding taxes | 22,386 | 0.6 | 9,960 | 0.3 |
| Other items | 588 | _ | _ | _ |
| Overall tax expense | 814,810 | 23.5 | 593,356 | 16.0 |

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

Accounting for taxes involves some estimation because the tax law is uncertain and the application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. We do not expect significant liabilities to arise in excess of the amounts provided. The Bank only recognises current and deferred tax assets where recovery is probable.

Movement of deferred tax assets and liabilities

| | Loan impairment allowances | Other | Total |
|----------------------------|----------------------------------|----------|----------|
| | AED000 | AED000 | AED000 |
| At 1 Jan 2024 | 351,585 | 61,402 | 412,987 |
| Income statement | 2,822 | 11,207 | 14,029 |
| Other comprehensive income | _ | 5,918 | 5,918 |
| At 31 Dec 2024 | 354,407 | 78,527 | 432,934 |
| At 1 Jan 2023 | 431,318 | 102,689 | 534,007 |
| Income statement | (79,733) | 6,844 | (72,889) |
| Other comprehensive income | _ | (48,131) | (48,131) |
| At 31 Dec 2023 | 351,585 | 61,402 | 412,987 |

Unrecognised deferred tax

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was Nil (2023: Nil).

Other information

UAE Federal Corporate Tax Law

The UAE Ministry of Finance released Federal Decree – Law No. 47 of 2022 on the Taxation of Corporations and Businesses enacting a Federal Corporate Income tax ('FCIT') regime in the UAE with effective date of 1 January 2024 for the Bank. Under the new FCIT tax regime, the Bank will be subject to a 9% Corporate Income tax ('CIT') on its taxable income, subject to relevant tax reliefs and credit as available. The Bank is already subject to a 20% CIT on its Banking operations under the tax regimes of the individual Emirates. The resulting double taxation was mitigated by the Emirates of Dubai and Sharjah as they have amended their Law to provide for a tax credit for the FCIT.

Dubai Emirate have announced a new tax decree in March 2024 providing relief for FCIT through a reduction of corporate tax rate from 20% to 11% basis which DTA was revalued and write-down for circa AED 154m (booked in first half of 2024) along with the remeasurement of the DTA for the current year at 11%. In December 2024 Dubai Emirates released an Administrative Decision ('AD') which changed the approach for tax relief against FCIT to tax credit (reduction in tax liability rather than a reduction in tax rate). In effect, the DTA position for FY2024 has been reinstated at tax rate of 20% for Dubai Emirate and the DTA write-down in first half of 2024 of approximately circa AED 154m has been reversed. The new Tax Law also repealed the tax exemption historically enjoyed by the Jebel Ali freezone Branches.

The Emirates of Abu Dhabi, Fujairah and Ras Al Khaimah are yet to issue their amended Tax laws to provide for a similar form of tax credit against the FCIT. In the absence of an official publication by these 3 Emirates on the reporting date, the Bank has provided for tax on the profits of these Emirates at a rate of 29%.

'Pillar Two' global minimum tax model rules

In July 2023, legislation was enacted in the UK, the jurisdiction of the group's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' Global Minimum Tax model rules of the Organisation for Economic Cooperation and Development ('OECD') under the Inclusive Framework on Base Erosion and Profit Shifting ('BEPS'), and a Qualified Domestic Minimum top-up tax ('QDMTT') with effect from 1 January 2024.

Under these rules, a top-up tax liability arises where the effective tax rate of the Bank's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any top-up tax arising in relation to jurisdictions in which a QDMTT applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, any top-up tax is payable by HSBC Holdings plc, being the Bank's ultimate parent, to the UK tax authority.

In response to the OECD's Pillar Two model rules, many national governments have introduced or announced their intention to introduce QDMTT rules that are closely aligned to the OECD's Pillar Two model rules. Where such QDMTT rules are introduced, they may be expected to have the effect of increasing the local tax rate to a minimum of 15%.

Tax legislation has been substantively enacted in UAE to implement a QDMTT effective from 1 January 2025. The application of the Pillar Two global minimum tax rules and the introduction of QDMTT is expected to have no material impact for the year ending 31 December 2025. However, the tax impact is dependent upon the ongoing evolution of rules and guidance in the relevant tax jurisdictions.

8 Segment analysis

Profit/(loss) for the year

| | 2024 | | | | | |
|--|---------------------------------------|---------------------------------------|-----------|-------------|-----------|-------------|
| | Wealth and | | | Markets and | | |
| | Personal | Commercial | Global | Securities | Corporate | |
| | Banking | Banking | Banking | Services | Centre | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Net interest income | 2,158,605 | 1,306,086 | 955,717 | 194,725 | (64,610) | 4,550,523 |
| Net fee income | 438,368 | 361,755 | 425,706 | 152,533 | (1,346) | 1,377,016 |
| Net income from financial instruments held for trading or | | | | | | |
| managed on a fair value basis | 189,241 | 159,323 | 1,871 | 335,374 | 215,124 | 900,933 |
| Other income | 96,839 | 30,632 | 27,376 | 273,215 | 16,933 | 444,995 |
| Net operating income before change in expected credit | | | | | | |
| losses and other credit impairment charges | 2,883,053 | 1,857,796 | 1,410,670 | 955,847 | 166,101 | 7,273,467 |
| Change in expected credit losses and other credit impairment | | | | | | |
| charges | (75,027) | (364,535) | (103,553) | 548 | | (542,567) |
| Net operating income | 2,808,026 | 1,493,261 | 1,307,117 | 956,395 | 166,101 | 6,730,900 |
| Total operating expenses | (1,356,317) | (618,999) | (527,054) | (457,992) | (296,877) | (3,257,239) |
| Profit/(loss) before tax | 1,451,709 | 874,262 | 780,063 | 498,403 | (130,776) | 3,473,661 |
| | | | 202 | 0 | | |
| Maria | 0.440.404 | 4 005 774 | 202 | | (455,005) | 4 000 004 |
| Net interest income | 2,119,434 | 1,225,771 | 1,006,431 | 333,390 | (455,095) | 4,229,931 |
| Net fee income | 438,301 | 323,260 | 343,081 | 138,662 | (1,002) | 1,242,302 |
| Net income from financial instruments held for trading or | 171,317 | 136,725 | 5,976 | 478,143 | 375,666 | 1,167,827 |
| managed on a fair value basis Other income | · · · · · · · · · · · · · · · · · · · | · · · · · · · · · · · · · · · · · · · | | | | |
| | (9,742) | 4,892 | (1,711) | 23,425 | 266,847 | 283,711 |
| Net operating income before change in expected credit losses and other credit impairment charges | 2,719,310 | 1,690,648 | 1,353,777 | 973,620 | 186,416 | 6,923,771 |
| | 2,713,310 | 1,030,040 | 1,333,777 | 373,020 | 100,410 | 0,323,771 |
| Change in expected credit losses and other credit impairment charges | 2,950 | (167,670) | (6,710) | (1,745) | _ | (173,175) |
| Net operating income | 2,722,260 | 1,522,978 | 1,347,067 | 971,875 | 186,416 | 6,750,596 |
| Total operating expenses | (1,224,489) | (557,001) | (532,555) | (390,016) | (347,842) | (3,051,903) |
| Profit/(loss) before tax | 1,497,771 | 965,977 | 814,512 | 581,859 | (161,426) | 3,698,693 |
| From (1005) before tax | 1,497,771 | 900,977 | 014,012 | 501,009 | (101,420) | 3,030,033 |

Statement of financial position

| • | | | | | | |
|---------------------------------------|------------|------------|------------|-------------|-----------|-------------|
| | | | 20 | 24 | | |
| | Wealth and | | | Markets and | | |
| | Personal | Commercial | Global | Securities | Corporate | |
| | Banking | Banking | Banking | Services | Centre | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Loans and advances to customers (net) | 12,788,232 | 22,561,330 | 14,554,269 | 1,115 | _ | 49,904,946 |
| Total assets | 40,721,713 | 32,597,254 | 28,813,736 | 47,195,763 | 4,575,549 | 153,904,015 |
| Customer accounts | 50,431,812 | 20,980,838 | 26,531,569 | 5,053,337 | _ | 102,997,556 |
| Total liabilities | 52,941,469 | 24,662,139 | 28,070,691 | 25,530,133 | 3,503,960 | 134,708,392 |
| | | | | | | |
| | | | 20 |)23 | | |
| Loans and advances to customers (net) | 12,286,546 | 19,285,039 | 14,555,961 | 223,774 | _ | 46,351,320 |
| Total assets | 36,492,356 | 27,436,292 | 27,298,647 | 41,359,905 | 5,802,089 | 138,389,289 |
| Customer accounts | 49,968,635 | 18,174,532 | 18,560,320 | 4,741,848 | _ | 91,445,335 |
| Total liabilities | 51,670,313 | 20,838,048 | 19,828,620 | 24,433,688 | 3,290,215 | 120,060,884 |
| | | | | | | |

9 Trading assets

| 202 | 4 2023 |
|---|--------------------|
| AED00 | o AED000 |
| Trading assets: | |
| not subject to repledge or resale by counterparties 6,467,55 | 4 6,090,890 |
| At 31 Dec 6,467,55 | 4 6,090,890 |
| Debt securities 1,159,83 | 967,029 |
| Treasury and other eligible bills 822,88 | 7 252,451 |
| Trading securities 1,982,72 | 6 1,219,480 |
| Trading reverse repurchase agreements 4,484,82 | 4 ,871,410 |
| At 31 Dec 6,467,55 | 4 6,090,890 |

10 Fair values of financial instruments carried at fair value

Control framework

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

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

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

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

Financial liabilities measured at fair value

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

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

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

Fair value hierarchy

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

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

Financial instruments carried at fair value and bases of valuation

| | 2024 | | | | 2023 | | | |
|--|------------|-----------|---------|------------|------------|-----------|-----------|------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Recurring fair value measurements at 31 Dec | | | | | | | | |
| Assets | | | | | | | | |
| Trading assets | 1,467,347 | 4,529,680 | 470,527 | 6,467,554 | 914,413 | 3,761,523 | 1,414,954 | 6,090,890 |
| Financial assets designated and otherwise mandatorily measured at fair value through | | | | | | | | |
| profit or loss | 38,672 | _ | _ | 38,672 | 37,146 | _ | _ | 37,146 |
| Derivatives | _ | 3,459,494 | 117,638 | 3,577,132 | _ | 4,172,028 | 166,830 | 4,338,858 |
| Financial investments | 18,323,804 | 808,447 | _ | 19,132,251 | 16,175,866 | 130,794 | 538,945 | 16,845,605 |
| Liabilities | | | | | | | | |
| Trading liabilities | 524,366 | 2,310,355 | _ | 2,834,721 | 587,165 | 2,419,590 | _ | 3,006,755 |
| Financial liabilities designated at fair value | _ | 3,145,132 | _ | 3,145,132 | _ | 3,891,876 | _ | 3,891,876 |
| Derivatives | _ | 2,828,247 | 90,932 | 2,919,179 | _ | 3,861,627 | 58,309 | 3,919,936 |

The balance as at 31 December 2024 under financial assets designated at fair value through profit or loss is AED 39 million (2023: AED 37 million).

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

During 2024, there was no transfer from Level 1 to Level 2 Financial Investments (2023: nil) and AED 869 million of Financial Investments transferred from Level 2 to Level 1 (2023: AED 264 million). The transfers between Level 2 and Level 3 are presented in 'Movement in Level 3 financial instruments' on page 24.

Fair value adjustments

Fair value adjustments are adopted when the Bank considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required.

Bid-offer

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

Uncertainty

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

Credit and debit valuation adjustment

The credit valuation adjustment is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Bank may not receive the full market value of the transactions.

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

Funding fair value adjustment

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

Inception profit (Day 1 P&L reserves)

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

Fair value valuation bases

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

| | | Asse | | Liabilities | | | |
|------------------|-----------------------|-------------------|-------------|-------------|-------------|--------|--|
| | Financial Investments | Trading Assets | Derivatives | Total | Derivatives | Total | |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | |
| Derivatives | _ | _ | 117,638 | 117,638 | 90,932 | 90,932 | |
| Other portfolios | _ | 470,527 | _ | 470,527 | _ | _ | |
| At 31 Dec 2024 | _ | 470,527 | 117,638 | 588,165 | 90,932 | 90,932 | |
| Derivatives | _ | _ | 166,830 | 166,830 | 58,309 | 58,309 | |
| Other portfolios | 538,945 | 1,414,954 | _ | 1,953,899 | _ | _ | |
| At 31 Dec 2023 | 538,945 | 1,414,954 | 166,830 | 2,120,729 | 58,309 | 58,309 | |

Derivatives

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

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

Movement in Level 3 financial instruments

| | | Assets | | Liabili | ties |
|---|-------------|-----------|-------------|---------------|-------------|
| | Financial | Trading | | Designated | |
| | Investments | Assets | Derivatives | at fair value | Derivatives |
| | AED000 | AED000 | AED000 | AED000 | AED000 |
| At 1 Jan 2024 | 538,945 | 1,414,954 | 166,830 | _ | 58,309 |
| Total gains/(losses) recognised in profit or loss | _ | (10,461) | 28,619 | _ | 83,260 |
| net income/expense from financial instruments held for trading or | | | | | |
| managed on a fair value basis | _ | (10,461) | 28,619 | _ | 83,260 |
| Total gains/(losses) recognised in other comprehensive income | 7,618 | _ | _ | _ | _ |
| - financial investments: fair value gains/(losses) | 7,618 | _ | _ | _ | _ |
| Purchases | _ | _ | _ | _ | _ |
| Sales | _ | _ | _ | _ | _ |
| Settlements | _ | (933,966) | (50,183) | (340,314) | (41,215) |
| Transfers out | (546,563) | _ | (27,628) | _ | (9,422) |
| Transfers in | _ | _ | _ | 340,314 | _ |
| At 31 Dec 2024 | - | 470,527 | 117,638 | _ | 90,932 |
| | | | | | |
| At 1 Jan 2023 | _ | 1,087,016 | 4,525 | _ | 30,357 |
| Total gains/(losses) recognised in profit or loss | _ | (207) | 106,825 | _ | 26,499 |
| - net income from financial instruments held for trading or managed on a | | | | | |
| fair value basis | _ | (207) | 106,825 | _ | 26,499 |
| Total gains/(losses) recognised in other comprehensive income | | | | _ | |
| - financial investments: fair value gains/(losses) | _ | _ | _ | _ | |
| Purchases | 538,945 | 807,545 | 47,261 | _ | _ |
| Sales | _ | (146,988) | _ | _ | _ |
| Settlements | _ | (332,412) | _ | _ | _ |
| Transfers out | | _ | _ | _ | |
| Transfers in | _ | _ | 8,219 | | 1,453 |
| At 31 Dec 2023 | 538,945 | 1,414,954 | 166,830 | _ | 58,309 |

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

| | | At 31 D | ec 2024 | | | At 31 De | ec 2023 | |
|---|----------------|---------------------------|---------|--------------|------------|--------------|------------------|--------------|
| | Refle | cted in | | | Refle | cted in | | |
| | profit or loss | | Reflect | ed in OCI | profit | or loss | Reflected in OCI | |
| | Favourable | Favourable Unfavourable F | | Unfavourable | Favourable | Unfavourable | Favourable | Unfavourable |
| | changes | changes | changes | changes | changes | changes | changes | changes |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Derivatives and trading assets ¹ | 57,038 | (57,038) | _ | _ | 17,632 | (17,632) | _ | |
| Financial investments | _ | _ | _ | _ | _ | _ | 1,469 | (1,469) |
| Total | 57,038 | (57,038) | _ | _ | 17,632 | (17,632) | 1,469 | (1,469) |

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

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

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

| | | At 31 D | ec 2024 | | At 31 Dec 2023 | | | |
|------------------|----------------|----------------------------|------------------|--------------|----------------|--------------|------------------|--------------|
| | Refle | ected in | | | Refle | cted in | | |
| | profit or loss | | Reflected in OCI | | profit or loss | | Reflected in OCI | |
| | Favourable | avourable Unfavourable Fav | | Unfavourable | Favourable | Unfavourable | Favourable | Unfavourable |
| | changes | changes | changes | changes | changes | changes | changes | changes |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Derivatives | 55,349 | (55,349) | _ | _ | 6,677 | (6,677) | _ | |
| Other portfolios | 1,689 | (1,689) | _ | _ | 10,955 | (10,955) | 1,469 | (1,469) |
| Total | 57,038 | (57,038) | _ | _ | 17,632 | (17,632) | 1,469 | (1,469) |

11 Fair values of financial instruments not carried at fair value

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

| | | | Fair v | alue | |
|---|--------------------|-----------------------------------|---------------------------|--|-------------|
| | Carrying amount | Quoted market price Level 1 | Observable inputs Level 2 | Significant unobservable inputs Level 3 | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 |
| At 31 Dec 2024 | | | | | |
| Assets | | | | | |
| Loans and advances to banks | 26,276,807 | | 26,275,841 | - | 26,275,841 |
| Loans and advances to customers | 49,904,946 | | | 48,593,327 | 48,593,327 |
| Reverse repurchase agreements – non-trading | 29,761,567 | | 29,874,724 | | 29,874,724 |
| Financial Investments | 12,071,514 | 9,408,869 | 2,591,829 | _ | 12,000,698 |
| Liabilities | | | | | |
| Deposits by banks | 3,714,710 | _ | 3,721,280 | _ | 3,721,280 |
| Customer accounts | 102,997,556 | _ | 102,802,870 | _ | 102,802,870 |
| Repurchase agreements – non-trading | 10,796,349 | _ | 10,798,637 | _ | 10,798,637 |
| At 31 Dec 2023 | | | | | |
| Assets | | | | | |
| Loans and advances to banks | 19,734,923 | _ | 19,734,721 | | 19,734,721 |
| Loans and advances to customers | 46,351,320 | | | 45,027,441 | 45,027,441 |
| Reverse repurchase agreements – non-trading | 25,960,050 | _ | 26,035,981 | _ | 26,035,981 |
| Financial Investments | 12,756,735 | 11,624,313 | 1,146,965 | _ | 12,771,278 |
| Liabilities | | | | | |
| Deposits by banks | 3,597,857 | _ | 3,614,405 | _ | 3,614,405 |
| Customer accounts | 91,445,335 | _ | 91,419,972 | _ | 91,419,972 |
| Repurchase agreements – non-trading | 6,666,813 | _ | 6,666,776 | _ | 6,666,776 |

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

Valuation

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

Loans and advances to banks and customers

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

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

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

Financial investments

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

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

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

Repurchase and reverse repurchase agreements - non-trading

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

12 Derivatives

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

| | Notional cont | ract amount | Fair | value – Asset | s | Fair v | alue – Liabiliti | es |
|------------------|---------------|-------------|-----------|---------------|-----------|-----------|------------------|-----------|
| | Trading | Hedging | Trading | Hedging | Total | Trading | Hedging | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Foreign exchange | 399,065,887 | 6,703,175 | 1,734,903 | 12,088 | 1,746,991 | 1,469,268 | 2,793 | 1,472,061 |
| Interest rate | 113,067,822 | 17,010,783 | 1,569,154 | 260,950 | 1,830,104 | 1,403,426 | 32,598 | 1,436,024 |
| Equities | _ | _ | _ | _ | _ | _ | _ | _ |
| Credit | 1,120,113 | _ | 37 | _ | 37 | 11,094 | _ | 11,094 |
| At 31 Dec 2024 | 513,253,822 | 23,713,958 | 3,304,094 | 273,038 | 3,577,132 | 2,883,788 | 35,391 | 2,919,179 |
| Foreign exchange | 383,860,381 | 6,728,911 | 1,904,104 | 12,673 | 1,916,777 | 1,783,606 | 284 | 1,783,890 |
| Interest rate | 106,534,491 | 15,579.535 | 2,188,214 | 233,357 | 2,421,571 | 2,085,639 | 41,373 | 2,127,012 |
| Equities | 206,754 | _ | _ | _ | _ | _ | _ | |
| Credit | 543,530 | _ | 510 | _ | 510 | 9,034 | _ | 9,034 |
| At 31 Dec 2023 | 491,145,156 | 22,308,446 | 4,092,828 | 246,030 | 4,338,858 | 3,878,279 | 41,657 | 3,919,936 |

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

Use of derivatives

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

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

Trading derivatives

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

Hedge accounting derivatives

Hedged risk components

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

Fair value hedges

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

Hedging instrument by hedged risk

| | | Hedging Instrument | | | | | | | | | |
|----------------|------------------------------|--------------------|-------------|---------------|-----------------------------------|--|--|--|--|--|--|
| | | Carrying amo | unt | | | | | | | | |
| | Notional amount ¹ | Assets | Liabilities | Balance sheet | Change in fair value ² | | | | | | |
| Hedged Risk | AED000 | AED000 | AED000 | presentation | AED000 | | | | | | |
| Interest rate | 6,283,583 | 161,961 | 620 | Derivatives | 23,373 | | | | | | |
| At 31 Dec 2024 | 6,283,583 | 161,961 | 620 | | 23,373 | | | | | | |
| Interest rate | 3,347,484 | 93,653 | 12,670 | Derivatives | (331,477) | | | | | | |
| At 31 Dec 2023 | 3,347,484 | 93,653 | 12,670 | | (331,477) | | | | | | |

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

Hedged item by hedged risk

| | | | Hedge | ed Item | | | Ineff | ectiveness | |
|----------------|-----------|-------------|--|--------------|---------------------------------------|-------------------------|----------------------|---|--|
| | Carryi | ng amount | Accumulated hedge adjustme in carrying a | nts included | | Change in | Recognised in profit | | |
| | Assets | Liabilities | Assets | Liabilities | Balance sheet | fair value ¹ | and loss | Profit and loss | |
| Hedged Risk | AED000 | AED000 | AED000 | AED000 | presentation | AED000 | AED000 | presentation | |
| Interest rate | 5,433,195 | _ | (53,245) | _ | Financial investments | (29,066) | | Net income from | |
| Interest rate | 48,353 | _ | (2,340) | _ | Loans and advances to customers | (1,683) 5,426 | | financial instruments held for trading or managed on a fair | |
| Interest rate | _ | 762,121 | _ | 1,416 | Customer accounts | (1,416) | | value basis | |
| At 31 Dec 2024 | 5,481,548 | 762,121 | (55,585) | 1,416 | | (25,056) | (1,683) | | |
| | | | | | | | | | |
| Interest rate | 3,277,360 | _ | 24,178 | _ | Financial investments | 326,656 | | Net income from | |
| Interest rate | 150,762 | _ | 6,451 | _ | Loans and advances to customers | 2,663 | (3,150) | financial instruments | |
| Interest rate | _ | _ | _ | _ | Deposits by banks | (992) | | value basis | |
| At 31 Dec 2023 | 3,428,122 | _ | 30,629 | _ | | 328,327 | (3,150) | | |

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

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

² Used in effectiveness testing; comprising the full fair value change of the hedging instrument.

Cash flow hedges

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

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

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

Hedging instrument by hedged risk

| | | Н | edging Instr | ument | | Hedged Item | Ineffec | tiveness |
|------------------|-------------------------------------|------------------|-----------------------|----------------------------|--|--|--|--|
| | | Carrying | j amount | | | | | |
| Hedged Risk | Notional amount ¹ AED000 | Assets AED000 | Liabilities AED000 | Balance sheet presentation | Change in fair value ² AED000 | Change in fair value ³ AED000 | Recognised in profit and loss AED000 | Profit and loss presentation |
| Foreign currency | 6,703,175 | 12,088 | 2,793 | Derivatives | 911 | 812 | (99) | Net income from financial instruments held |
| Interest rate | 10,727,200 | 98,989 | 31,978 | Derivatives | (164,294) | (164,698) | (404) | for trading or managed on a fair value basis |
| At 31 Dec 2024 | 17,430,375 | 111,077 | 34,771 | | (163,383) | (163,886) | (503) | |
| | | | | | | | | |
| Foreign currency | 6,728,911 | 12,673 | 284 | Derivatives | 1,048 | 1,213 | (165) | Net income from financial instruments held |
| | | | | | · | · | | for trading or |
| Interest rate | 12,232,051 | 139,704 | 28,703 | Derivatives | 66,395 | 66,395 | _ | managed on a fair value basis |
| At 31 Dec 2023 | 18,960,962 | 152,377 | 28,987 | | 67,443 | 67,608 | (165) | |

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

13 Financial investments

Carrying amount of financial investments

| - Debt securities At 31 Dec | 12,071,514 31,203,765 | 8,427,626 29,602,340 |
|---|--------------------------|-------------------------|
| - Treasury and other eligible bills | | 4,329,109 |
| Debt instruments measured at amortised cost | 12,071,514 | 12,756,735 |
| - Debt securities | 11,498,903 | 8,402,678 |
| - Treasury and other eligible bills | 7,633,348 | 8,442,927 |
| Financial investments measured at fair value through other comprehensive income | 19,132,251 | 16,845,605 |
| | AED000 | AED000 |
| | 2024 | 2023 |

² Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.

³ Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.

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

Assets charged as security for liabilities

The fair value of assets pledged as collateral but that do not qualify for derecognition is AED 1,276 million (2023: AED 129 million). These transactions are conducted under terms that are usual and customary to repurchase agreements.

Financial assets pledged as collateral

| At 31 Dec | 1,275,676 | 128,648 |
|-----------------|-----------|---------|
| Debt securities | 1,275,676 | 128,648 |
| | AED000 | AED000 |
| | 2024 | 2023 |

These transactions are conducted under terms that are usual and customary to repurchase agreements.

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default is AED 37,328 million (2023: AED 34,927 million). The fair value of any such collateral sold or repledged is AED 11,766 million (2023: AED 10,944 million). The Bank is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

15 Joint arrangement

| | | | | 2024 | 2023 |
|---|-----------------------------|--------------------|---------------------------------------|---------------------------|----------------------------|
| | Country of incorporation | Principal activity | The Bank's interest in equity capital | Issued equity capital | Issued equity capital |
| HSBC Middle East Leasing Partnership – (Joint operation) | Dubai, UAE | Leasing | 15.00% | US\$95 million fully paid | US\$282 million fully paid |

The results of the joint arrangement have been included on proportionate basis. During the year, there has been a reduction in issued equity capital from US\$282 million to US\$95 million.

16 Prepayments, accrued income and other assets

| | 2024 | 2023 |
|--|-----------|-----------|
| | AED000 | AED000 |
| Prepayments and accrued income | 1,499,776 | 1,435,269 |
| Items in course of collection from other banks | 35,406 | 122,531 |
| Endorsements and acceptances | 2,011,886 | 1,169,941 |
| Other accounts | 341,195 | 601,856 |
| Property, plant and equipment ¹ | 863,875 | 880,088 |
| At 31 Dec | 4,752,138 | 4,209,685 |

¹ As at 31 December 2024, net book value of HSBC Tower was AED 753 million (2023: AED 801 million) and depreciation charged during the year was AED 33 million (2023: AED33 million).

Majority of financial assets included in prepayments, accrued income and other assets are measured at amortised cost.

17 Intangible assets

Included within intangible assets is internally generated software with a net carrying value of AED 775 million (2023: AED 753 million).

During the year, capitalisation of internally generated software was AED 222 million (2023: AED 277 million), amortisation and impairment was AED 200 million (2023: AED 155 million).

18 Customer Accounts

| | 2024 | 2023 |
|-----------------|-------------|------------|
| | AED000 | AED000 |
| Current account | 67,765,282 | 59,394,886 |
| Saving account | 10,966,010 | 10,717,763 |
| Fixed deposits | 24,266,200 | 21,332,378 |
| Others | 64 | 308 |
| At 31 Dec | 102,997,556 | 91,445,335 |

19 Trading liabilities

| | 2024 | 2023 |
|-----------------------------------|-----------|-----------|
| | AED000 | AED000 |
| Trading repurchase agreements | 2,258,274 | 2,373,047 |
| Net short positions in securities | 571,416 | 633,708 |
| Others | 5,031 | _ |
| At 31 Dec | 2,834,721 | 3,006,755 |

20 Financial liabilities designated at fair value

| | 2024 | 2023 |
|---|-----------|-----------|
| | AED000 | AED000 |
| Deposits by banks and customer accounts | 2,552,038 | 2,699,320 |
| Debt securities in issue | 593,094 | 1,192,556 |
| Total | 3,145,132 | 3,891,876 |

At 31 December 2024, the accumulated change in fair value attributable to changes in credit risk was nil (2023: AED 9 million loss). As at 31 December 2024, the difference between the carrying amount and the amount contractually required to be paid at maturity was AED 13 million (2023: AED 37 million).

21 Accruals, deferred income and other liabilities

| | 2024 | 2023 |
|---|-----------|-----------|
| | AED000 | AED000 |
| Accruals and deferred income | 1,312,999 | 1,148,778 |
| Items in course of transmission to other banks | 646,963 | 675,695 |
| Share-based payments liability to HSBC Holdings plc | 69,953 | 64,738 |
| Endorsements and acceptances | 2,013,562 | 1,170,601 |
| Employee benefit liabilities (Note 5) | 672,092 | 597,742 |
| Margin deposits | 740,490 | 801,393 |
| Transitory accounts | 57,884 | 43,527 |
| Other liabilities | 1,474,333 | 2,462,453 |
| At 31 Dec | 6,988,276 | 6,964,927 |

Majority of financial liabilities included in accruals, deferred income and other liabilities are measured at amortised cost.

22 Provisions

| | Restructuring costs | Contractual commitments | Legal proceedings and regulatory matters | Other provisions | Total |
|--|---------------------|-------------------------|---|---------------------|----------|
| | AED000 | AED000 | AED000 | AED000 | AED000 |
| At 1 Jan 2024 | 29,427 | 37,245 | = | 7 | 66,679 |
| Additions | 26,021 | _ | 48,715 | 6,873 | 81,609 |
| Amounts utilised | (30,771) | _ | _ | = | (30,771) |
| Unused amounts reversed | (8,002) | _ | (48,715) | (7) | (56,724) |
| Net change in expected credit loss provision | _ | 457,154 | _ | _ | 457,154 |
| At 31 Dec 2024 | 16,675 | 494,399 | - 1 | 6,873 | 517,947 |
| At 1 Jan 2023 | 33,918 | 94,683 | 639 | 26,512 | 155,752 |
| Additions | 40,509 | _ | 1,112 | _ | 41,621 |
| Amounts utilised | (36,246) | _ | (1,635) | (13,950) | (51,831) |
| Unused amounts reversed | (8,754) | _ | (116) | (12,555) | (21,425) |
| Net change in expected credit loss provision | _ | (57,438) | _ | _ | (57,438) |
| At 31 Dec 2023 | 29,427 | 37,245 | _ | 7 | 66,679 |

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

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

- Trading assets and liabilities (excluding reverse repos, repos and debt securities in issue), and trading derivatives are included in the 'Due within 3 months' time bucket, because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after 5 years' time bucket.
 Undated or perpetual instruments are classified based on the contractual notice period, which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due after 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due after 5 years' time bucket.
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets and liabilities

| | | | At 31 Dec 2024 | | |
|--|--------------------------|-------------|----------------|-----------|--------------------------|
| | | Due between | Due between | | |
| | Due within | 3 and | 1 and | Due after | |
| | 3 months | 12 months | 5 years | 5 years | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 |
| Financial assets | | | | | |
| Trading assets | 5,624,844 | 187,049 | 655,661 | _ | 6,467,554 |
| Derivatives | 3,313,047 | 31,757 | 212,411 | 19,917 | 3,577,132 |
| Loans and advances to banks ¹ | 22,905,113 | 3,112,892 | 258,802 | | 26,276,807 |
| Loans and advances to customers | 13,990,331 | 9,059,587 | 18,547,366 | 8,307,662 | 49,904,946 |
| Reverse repurchase agreements – non-trading | 19,945,806 | 835,375 | 8,980,386 | | 29,761,567 |
| Financial investments | 5,427,489 | 3,846,484 | 20,580,099 | 1,349,693 | 31,203,765 |
| Other financial assets | 3,218,824 | 465,512 | _ | _ | 3,684,336 |
| Total | 74,425,454 | 17,538,656 | 49,234,725 | 9,677,272 | 150,876,107 |
| Non-Financial assets | | _ | _ | 2,240,632 | 2,240,632 |
| Financial liabilities | | | | | _,_ :-, |
| Deposits by banks | 2,410,972 | 1,303,738 | _ | _ | 3,714,710 |
| Customer accounts | 93,614,129 | 8,219,432 | 1,163,995 | _ | 102,997,556 |
| Repurchase agreements – non-trading | 5,641,875 | 3,211,593 | 1,942,881 | _ | 10,796,349 |
| Trading liabilities | 1,472,640 | | 1,362,081 | _ | 2,834,721 |
| Financial liabilities designated at fair value | 2,117,762 | 608,887 | 418,483 | _ | 3,145,132 |
| Derivatives | 2,883,999 | 3,180 | 31,641 | 359 | 2,919,179 |
| Other financial liabilities | 5,021,954 | 474,966 | 40,334 | 7,339 | 5,544,593 |
| Total | 113,163,331 | 13,821,796 | 4,959,415 | 7,698 | 131,952,240 |
| Non-Financial liabilities | | - | | 2,110,156 | 2,110,156 |
| Loan and other credit-related commitments | 61,389,752 | _ | _ | | 61,389,752 |
| Financial guarantees and similar contracts | 44,042,974 | _ | _ | _ | 44,042,974 |
| Financial assets | | | At 31 Dec 2023 | | |
| Trading assets | 2,228,292 | 2,437,712 | 1,424,886 | _ | 6,090,890 |
| Derivatives | 4,095,987 | 10,564 | 231,980 | 327 | 4,338,858 |
| Loans and advances to banks ¹ | 16,882,629 | 2,062,182 | 790,112 | _ | 19,734,923 |
| Loans and advances to customers | 13,409,986 | 7,708,293 | 17,555,631 | 7,677,410 | 46,351,320 |
| Reverse repurchase agreements – non-trading | 11,844,342 | 7,834,011 | 6,281,697 | _ | 25,960,050 |
| Financial investments | 3,446,129 | 12,783,712 | 12,947,172 | 425,327 | 29,602,340 |
| Other financial assets | 2,871,875 | 218,121 | 2,741 | | 3,092,737 |
| Total | 54,779,240 | 33,054,595 | 39,234,219 | 8,103,064 | 135,171,118 |
| Non-Financial assets | _ | _ | | 2,160,680 | 2,160,680 |
| Financial liabilities | | | | | _,:00,000 |
| Deposits by banks | 2,288,619 | 5,499 | 1,303,739 | _ | 3,597,857 |
| Customer accounts | 84,439,788 | 6,841,938 | 163,608 | _ | 91,445,335 |
| Repurchase agreements – non-trading | 3,204,257 | 2,598,740 | 863,816 | _ | 6,666,813 |
| Trading liabilities | 1,849,862 | | 1,156,893 | _ | 3,006,755 |
| Financial liabilities designated at fair value | 1,186,464 | 2,586,790 | 118,622 | _ | 3,891,876 |
| Derivatives | 3,878,279 | | 38,701 | 2,956 | 3,919,936 |
| Other financial liabilities | 5,230,312 | 229,701 | 37,721 | 5.475 | 5,503,209 |
| Total | 102,077,581 | 12,262,669 | 3,683,100 | 8,431 | 118,031,781 |
| Non-Financial liabilities | 102,077,301 | 12,202,009 | 5,000,100 | 1,353,408 | 1,353,408 |
| | _ | | | 1,000,400 | 1,000,400 |
| | 56 566 065 | _ | _ | _ | 56 566 065 |
| Loan and other credit-related commitments Financial guarantees and similar contracts | 56,566,965 38,694,871 | | | | 56,566,965 38,694,871 |

¹ Includes deposits amounting to AED 7,446 million (2023: AED 8,282 million) at Central Bank which are subject to certain restrictions.

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

| | 0 | Due within | Due between 3 and | Due between | Due after |
|--|--------------|------------|----------------------|------------------|---------------------|
| | On demand | 3 months | 3 and 12 months | 1 and 5 years | Due aπer 5 years |
| | | | | • | • |
| - | AED000 | AED000 | AED000 | AED000 | AED000 |
| Deposits by banks | 2,416,332 | 5,929 | 1,321,524 | | |
| Customer accounts | 87,379,264 | 6,398,800 | 8,371,571 | 1,207,807 | |
| Repurchase agreements – non-trading | 3,110,084 | 2,654,029 | 3,345,774 | 2,050,707 | _ |
| Trading liabilities | 2,834,721 | _ | = | _ | _ |
| Financial liabilities designated at fair value | 630,284 | 1,496,168 | 611,075 | 420,726 | _ |
| Derivatives | 2,884,001 | _ | 3,180 | 31,641 | 359 |
| Other financial liabilities | 4,085,649 | 1,011,280 | 476,658 | 45,554 | 10,425 |
| Total | 103,340,335 | 11,566,206 | 14,129,782 | 3,756,435 | 10,784 |
| Loan and other credit-related commitments | 61,389,752 | _ | _ | _ | _ |
| Financial guarantees and similar contracts | 44,042,974 | _ | _ | _ | _ |
| At 31 Dec 2024 | 208,773,061 | 11,566,206 | 14,129,782 | 3,756,435 | 10,784 |
| | | | | | |
| Deposits by banks | 2,317,481 | 4,251 | 35,715 | 1,343,967 | |
| Customer accounts | 78,971,930 | 5,587,103 | 6,959,749 | 170,252 | |
| Repurchase agreements – non-trading | 2,536,776 | 738,872 | 2,685,483 | 921,563 | |
| Trading liabilities | 3,006,755 | _ | _ | _ | |
| Financial liabilities designated at fair value | 826,125 | 372,443 | 2,608,890 | 121,699 | |
| Derivatives | 3,878,279 | _ | _ | 38,681 | 2,976 |
| Other financial liabilities | 5,040,077 | 356,106 | 231,141 | 41,876 | 8,646 |
| Total | 96,577,423 | 7,058,775 | 12,520,978 | 2,638,038 | 11,622 |
| Loan and other credit-related commitments | 56,566,965 | | | _ | |
| Financial guarantees and similar contracts | 38,694,871 | | | _ | |
| At 31 Dec 2023 | 191,839,259 | 7,058,775 | 12,520,978 | 2,638,038 | 11,622 |

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

Further discussion of the Bank's liquidity and funding management can be found in Note 25 'Risk management'.

24 Offsetting of financial assets and financial liabilities

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

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

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

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

| | Amounts subject to enforceable netting arrangements | | | | | | | |
|--|---|-------------------|--|---|--------------------|---------|--|------------|
| | | | | Amounts no in the balan | | | | |
| | Gross amounts | Amounts offset | Net amounts in the balance sheet | Financial instruments and Non- cash collateral ² | Cash collateral | | Amount not subject to enforceable netting arrangements | Total |
| Physical accepts | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Financial assets Derivatives (Note 12) | 3,119,656 | | 3,119,656 | (2,098,592) | (796,646) | 224,418 | 457,476 | 3,577,132 |
| Reverse repos, stock borrowing and similar agreements classified as: | 29,741,118 | | 29,741,118 | (29,741,118) | (730,040) | | 20,449 | |
| - non-trading assets | 29,741,118 | _ | 29,741,118 | (29,741,118) | _ | _ | 20,449 | 29,761,567 |
| Loans and advances to customers excluding reverse repos at amortised cost ¹ | 789,408 | _ | 789,408 | _ | (276,011) | 513,397 | _ | 789,408 |
| At 31 Dec 2024 | 33,650,182 | _ | 33,650,182 | (31,839,710) | (1,072,657) | 737,815 | 477,925 | 34,128,107 |
| Derivatives (Note 12) | 3,948,250 | | 3,948,250 | (2,564,573) | (1,286,080) | 97,597 | 390,608 | 4,338,858 |
| Reverse repos, stock borrowing and similar agreements classified as: | 25,924,014 | _ | 25,924,014 | (25,924,014) | _ | _ | 36,036 | 25,960,050 |
| non-trading assets | 25,924,014 | | 25,924,014 | (25,924,014) | | | 36,036 | 25,960,050 |
| Loans and advances to customers excluding reverse repos at amortised cost ¹ | 912,388 | _ | 912,388 | _ | (342,057) | 570,331 | _ | 912,388 |
| At 31 Dec 2023 | 30,784,652 | | 30,784,652 | (28,488,587) | (1,628,137) | 667,928 | 426,644 | 31,211,296 |
| Financial liabilities | | | | | | | | |
| Derivatives (Note 12) | 2,249,976 | | 2,249,976 | (2,098,592) | (84,512) | 66,872 | 669,203 | 2,919,179 |
| Repurchase agreements – non trading | 10,796,349 | | 10,796,349 | (10,796,349) | | | | 10,796,349 |
| At 31 Dec 2024 | 13,046,325 | _ | 13,046,325 | (12,894,941) | (84,512) | 66,872 | 669,203 | 13,715,528 |
| Derivatives (Note 12) | 2,716,721 | | 2,716,721 | (2,564,573) | (103,083) | 49,065 | 1,203,215 | 3,919,936 |
| Repurchase agreements – non trading | 6,666,813 | | 6,666,813 | (6,666,813) | | _ | | 6,666,813 |
| At 31 Dec 2023 | 9,383,534 | | 9,383,534 | (9,231,386) | (103,083) | 49,065 | 1,203,215 | 10,586,749 |

¹ At 31 December 2024, the total amount of 'Loans and advances to customers' was AED 49,905 million (2023: AED 46,351 million), of which AED 789 million (2023: AED 912 million) was subject to offsetting.

25 Risk management

Our approach to risk

Our risk management

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks which 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 and funding risk and strategic risk (including reputational risk). 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.

We recognise the importance of a strong culture, which refers to our shared attitudes, beliefs, values and standards that shape behaviours including those related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with ultimate supervisory oversight residing with the Board.

The implementation of our business strategy, which includes transformation, 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.

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

Our risk management framework

The following table and descriptions summarise 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

| 11000 Values and 11sk cartain | | |
|-------------------------------|---|--|
| 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 Board on managing risks effectively. It is supported by a clear policy framework of risk ownership and by the accountability of all staff 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 provide non-executive oversight of risks. Under authority delegated by the HBME Board Risk Committee, 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's 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.

We formally articulate our risk appetite through our 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 programme 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 our risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on the Bank and provides confidence to regulators on the Bank's financial stability.

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 2024

We continued to actively manage the risks related to 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, including through implementation of climate-related
 risk policies and processes along with regional inputs towards the annual climate risk materiality assessment across the Group. We continue
 to implement our climate risk programme to improve our processes and capabilities to better embed climate considerations throughout our
 organization.
- 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 our 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.

Our current top and emerging risks are described on page 63.

Credit risk

Credit risk management

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

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

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

The principal objectives of our credit risk management are:

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

IFRS 9 'Financial Instruments' Process

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

Concentration of exposure

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

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

Further details on gross loans and advances to customers by industry sector are set out on page 52.

Credit quality of financial instruments

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

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

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

Impairment assessment

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

Write-off of loans and advances

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

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due, the standard period being the end of the month in which the account becomes 180 days contractually delinquent. However, in exceptional circumstances, they may be extended further, in countries where local regulation or legislation constrain earlier write-off, or where the realisation of collateral for secured real estate lending extends to this time.

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

Summary of credit risk

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

The IFRS 9 allowance for ECL has decreased from AED 2,279 million at 31 December 2023 to AED 1,892 million at 31 December 2024.

The IFRS 9 allowance for ECL at 31 December 2024 comprises AED 1,852 million (2023: AED 2,262 million) in respect of assets held at amortised cost, AED 3.1 million (2023: AED 7.5 million) on debt instruments measured at fair value through other comprehensive income and AED 40 million (2023: AED 17 million) in respect of loan commitments and financial guarantees.

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

| | 31 Dec 20 | 024 | 31 Dec 2 | 023 |
|---|-----------------------------------|-------------------|-----------------------------------|----------------------|
| | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
| | AED000 | AED000 | AED000 | AED000 |
| Loans and advances to customers at amortised cost | 51,751,977 | (1,847,031) | 48,601,802 | (2,250,482) |
| Loans and advances to banks at amortised cost | 26,278,032 | (1,225) | 19,736,130 | (1,207) |
| Other financial assets measured at amortised costs | 45,936,575 | (4,018) | 42,445,053 | (9,979) |
| - cash | 713,194 | - | 897,814 | _ |
| reverse repurchase agreements – non-trading | 29,761,567 | _ | 25,960,050 | _ |
| - financial investments | 12,073,029 | (1,515) | 12,758,019 | (1,284) |
| - prepayments, accrued income and other assets | 3,388,785 | (2,503) | 2,829,170 | (8,695) |
| Total gross carrying amount on-balance sheet | 123,966,584 | (1,852,274) | 110,782,985 | (2,261,668) |
| Loans and other credit related commitments | 25,675,620 | (35,290) | 19,583,332 | (16,386) |
| Financial guarantees | 2,206,244 | (4,484) | 1,865,087 | (451) |
| Total nominal amount off-balance sheet | 27,881,864 | (39,774) | 21,448,419 | (16,837) |

| | Fair value | Memorandum allowance for ECL | Fair value | Memorandum allowance for ECL |
|--|------------|------------------------------------|------------|------------------------------------|
| | AED000 | AED000 | AED000 | AED000 |
| Debt instruments measured at fair value through other comprehensive income ('FVOCI') | 19,132,251 | (3,083) | 16,845,605 | (7,505) |

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

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

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

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2024

| | | Gross carry | ing/nominal | amount | | | Allo | wance for E0 | CL | |
|--|-------------|-------------|-------------|--------|-------------|-----------|-----------|--------------|---------|-------------|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Loans and advances to customers at | | | | | | | | | | |
| amortised cost | 46,268,649 | 2,926,499 | 2,543,653 | 13,176 | 51,751,977 | (94,355) | (120,231) | (1,628,891) | (3,554) | (1,847,031) |
| Loans and advances to banks at | | | | | | | | | | |
| amortised cost | 26,104,155 | 173,877 | _ | _ | 26,278,032 | (588) | (637) | _ | _ | (1,225) |
| Other financial assets measured at amortised cost | 45,824,781 | 111,769 | 25 | _ | 45,936,575 | (3,643) | (350) | (25) | _ | (4,018) |
| Loan and other credit-related commitments | 24,836,320 | 822,445 | 16,855 | _ | 25,675,620 | (17,570) | (3,552) | (14,168) | _ | (35,290) |
| Financial guarantees | 2,084,969 | 101,246 | 20,029 | _ | 2,206,244 | (272) | (276) | (3,936) | - | (4,484) |
| At 31 Dec 2024 | 145,118,874 | 4,135,836 | 2,580,562 | 13,176 | 151,848,448 | (116,428) | (125,046) | (1,647,020) | (3,554) | (1,892,048) |

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2024

| | | ECL coverage % | | | | | | |
|---|---------|----------------|---------|------|-------|--|--|--|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | | | |
| | % | % | % | % | % | | | |
| Loans and advances to customers at amortised cost | 0.2 | 4.1 | 64.0 | 27.0 | 3.6 | | | |
| Loans and advances to banks at amortised cost | _ | 0.4 | _ | _ | _ | | | |
| Other financial assets measured at amortised cost | _ | 0.3 | 100.0 | _ | _ | | | |
| Loan and other credit-related commitments | 0.1 | 0.4 | 84.1 | _ | 0.1 | | | |
| Financial guarantees | _ | 0.3 | 19.7 | _ | 0.2 | | | |
| At 31 Dec 2024 | 0.1 | 3.0 | 63.8 | 27.0 | 1.2 | | | |

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2023

| | | Gross carr | ying/nominal a | amount | | Allo | wance for EC | L | | |
|--|-------------|------------|----------------|--------|-------------|-----------|--------------|-------------|---------|-------------|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Loans and advances to customers at amortised cost | 40,600,266 | 5,118,731 | 2,871,675 | 11,130 | 48,601,802 | (94,868) | (131,984) | (2,017,966) | (5,664) | (2,250,482) |
| Loans and advances to banks at amortised cost | 19,425,165 | 310,965 | _ | _ | 19,736,130 | (732) | (475) | _ | _ | (1,207) |
| Other financial assets measured at amortised cost | 42,345,433 | 93,723 | 5,897 | _ | 42,445,053 | (4,081) | (155) | (5,743) | _ | (9,979) |
| Loan and other credit related commitments | 19,212,210 | 280,710 | 90,412 | _ | 19,583,332 | (14,051) | (1,939) | (396) | _ | (16,386) |
| Financial guarantees | 1,666,443 | 159,255 | 39,389 | _ | 1,865,087 | (306) | (139) | (6) | _ | (451) |
| At 31 Dec 2023 | 123,249,517 | 5,963,384 | 3,007,373 | 11,130 | 132,231,404 | (114,038) | (134,692) | (2,024,111) | (5,664) | (2,278,505) |

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2023

| | | ECL coverage % | | | | | | |
|---|---------|----------------|---------|------|-------|--|--|--|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | | | |
| | % | % | % | % | % | | | |
| Loans and advances to customers at amortised cost | 0.2 | 2.6 | 70.3 | 50.9 | 4.6 | | | |
| Loans and advances to banks at amortised cost | _ | 0.2 | _ | _ | _ | | | |
| Other financial assets measured at amortised cost | _ | 0.2 | 97.4 | _ | _ | | | |
| Loan and other credit related commitments | 0.1 | 0.7 | 0.4 | _ | 0.1 | | | |
| Financial guarantees | _ | 0.1 | _ | _ | _ | | | |
| At 31 Dec 2023 | 0.1 | 2.3 | 67.3 | 50.9 | 1.7 | | | |

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Methodology for Developing Forward Looking Economic Scenarios

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

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

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

from this probability-based scenario weighting approach when the economic outlook is determined to be particularly uncertain and risks are elevated.

Description of Consensus Economic Scenarios

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

Central scenario

| | UAE | |
|--|------|------|
| | 2024 | 2023 |
| Coverage period for 2024: (2025Q1-2029Q4); 2023: (2024Q1-2028Q4) | | |
| Probability (%) | 75 | 75 |
| GDP growth rate (%) | | |
| 2024: Annual average growth rate | n/a | 3.7 |
| 2025: Annual average growth rate | 4.4 | 4.0 |
| 2026: Annual average growth rate | 4.2 | 3.8 |
| 2027: Annual average growth rate | 3.9 | 3.4 |
| 2028: Annual average growth rate | 3.6 | 3.4 |
| 2029: Annual average growth rate | 3.6 | N/A |
| 5-year average | 3.9 | 3.6 |
| Oil price (US\$/barrel) | | |
| 2024: Average oil price | n/a | 79.6 |
| 2025: Average oil price | 70.8 | 75.9 |
| 2026: Average oil price | 69.2 | 73.0 |
| 2027: Average oil price | 68.3 | 70.7 |
| 2028: Average oil price | 67.9 | 70.7 |
| 2029: Average oil price | 67.9 | N/A |
| 5-year average | 68.8 | 74.0 |
| House price growth (%) | | |
| 2024: Annual average growth rate | n/a | 12.6 |
| 2025: Annual average growth rate | 9.3 | 7.7 |
| 2026: Annual average growth rate | 5.1 | 4.4 |
| 2027: Annual average growth rate | 3.6 | 2.6 |
| 2028: Annual average growth rate | 1.8 | 2.3 |
| 2029: Annual average growth rate | 1.3 | N/A |
| 5-year average | 4.2 | 5.9 |
| Inflation rate (%) | | |
| 2024: Annual average rate | n/a | 2.3 |
| 2025: Annual average rate | 2.1 | 2.2 |
| 2026: Annual average rate | 1.9 | 2.1 |
| 2027: Annual average rate | 1.8 | 2.1 |
| 2028: Annual average rate | 1.9 | 2.1 |
| 2029: Annual average rate | 1.8 | N/A |
| 5-year average | 1.9 | 2.1 |

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

Outer scenarios (less likely)

| Cator occitation (roos intoly) | | | |
|------------------------------------|-----------------|-------------------|---------------|
| | | 2024 | |
| | Consensus | Consensus | Downside 2 |
| | upside scenario | downside scenario | scenario |
| Probability (%) | 10 | 10 | 5 |
| GDP level (%) ¹ | 28.9 (4Q29) | 0.3 (1Q25) | (6.8) (2Q26) |
| Oil price (US\$) | 68.5 (1Q27) | 67.9 (4Q28) | 51.8 (3Q26) |
| House price index (%) ¹ | 26.1 (4Q29) | (0.4) (1Q25) | (13.2) (2Q27) |
| Inflation rate (%) ² | 0.6 (4Q25) | 2.8 (1Q26) | 3.7 (2Q25) |
| | | 2023 | |
| Probability (%) | 10 | 10 | 5 |
| GDP level (%) ¹ | 30.7 (4Q28) | 1.4 (1Q24) | (4.9) (2Q25) |
| Oil price (US\$) | 79.7 (1Q24) | 70.4 (4Q27) | 58.2 (3Q25) |
| House price index (%) ¹ | 34.2 (4Q28) | 0.3 (1Q24) | (2.9) (4Q25) |
| Inflation rate (%) ² | 1.4 (1Q25) | 3.0 (1Q24) | 3.5 (2Q24) |

¹ For consensus upside scenario, this is cumulative change to the highest level of the series during the 20-quarter projection, and for consensus downside and downside 2 scenarios, this is cumulative change to the lowest level of the series during the 20-quarter projection.

² For consensus upside scenario, this is lowest projected year-on-year percentage change in inflation, and for consensus downside and downside 2 scenarios, this is highest projected year-on-year percentage change in inflation.

Economic scenarios sensitivity analysis of ECL estimates

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

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

How economic scenarios are reflected in the wholesale calculation of ECL

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

For PDs, we consider the correlation of forward economic guidance to default rates. For LGD calculations, we consider the correlation of forward economic guidance to loss amounts of defaulted customers. For EAD calculations, we consider the correlation of forward economic guidance to potential utilization.

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

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

| | UAE | |
|-------------------------------|---------|---------|
| | 2024 | 2023 |
| | AEDm | AEDm |
| Reported ECL | 187 | 118 |
| Gross carrying/nominal amount | 216,343 | 191,242 |
| Consensus central scenario | 180 | 118 |
| Consensus upside scenario | 147 | 110 |
| Consensus downside scenario | 213 | 125 |
| Downside 2 scenario | 441 | 147 |

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

How economic scenarios are reflected in the retail calculation of ECL

The Bank has adopted a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macro-economic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period aligned to the remaining maturity of underlying asset or assets.

IFRS 9 ECL sensitivity to future economic conditions^{1,2}

| | | | UAE | | | |
|----------------|-----------------|----------|--------------|--------------|--------------|--------------|
| | Gross | Reported | Central | Upside | Downside | Downside 2 |
| | carrying amount | ECL | scenario ECL | scenario ECL | scenario ECL | scenario ECL |
| At 31 Dec 2024 | AEDm | AEDm | AEDm | AEDm | AEDm | AEDm |
| Mortgages | 7,319 | 29 | 29 | 29 | 29 | 29 |
| Credit cards | 1,968 | 114 | 114 | 114 | 114 | 129 |
| Other | 2,527 | 62 | 62 | 62 | 62 | 70 |
| At 31 Dec 2023 | | | | | | |
| Mortgages | 7,349 | 92 | 92 | 92 | 92 | 92 |
| Credit cards | 1,730 | 88 | 88 | 81 | 92 | 118 |
| Other | 2,648 | 73 | 73 | 70 | 77 | 103 |

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

Management judgemental adjustments

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

At 31 December 2024, there is a management judgemental adjustment overlay in the wholesale portfolio of AED 99 million (2023: Nil) and there is an overlay of AED 33 million in the retail portfolio (2023: underlay of AED 66 million).

Credit exposure

Maximum exposure to credit risk

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

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

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

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

Maximum exposure to credit risk

| | | 2024 | | 2023 | | | |
|---|------------------|-------------|-------------|------------------|-------------|-------------|--|
| | Maximum exposure | Offset | Net | Maximum exposure | Offset | Net | |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | |
| Loans and advances to customers held at amortised cost | 49,904,946 | (276,011) | 49,628,935 | 46,351,320 | (342,057) | 46,009,263 | |
| Loans and advances to banks held at amortised cost | 26,276,807 | _ | 26,276,807 | 19,734,923 | _ | 19,734,923 | |
| Other financial assets measured at amortised costs | 46,358,186 | (2,729,153) | 43,629,033 | 42,868,392 | (1,337,752) | 41,530,640 | |
| - cash | 713,194 | _ | 713,194 | 897,814 | _ | 897,814 | |
| reverse repurchase agreements – non-trading | 29,761,567 | (2,729,153) | 27,032,414 | 25,960,050 | (1,337,752) | 24,622,298 | |
| - financial investments | 12,071,514 | _ | 12,071,514 | 12,756,735 | _ | 12,756,735 | |
| - prepayments, accrued income and other assets | 3,811,911 | _ | 3,811,911 | 3,253,793 | _ | 3,253,793 | |
| Derivatives | 3,577,132 | (2,895,238) | 681,894 | 4,338,858 | (3,850,653) | 488,205 | |
| Total on-balance sheet | 126,117,071 | (5,900,402) | 120,216,669 | 113,293,493 | (5,530,462) | 107,763,031 | |
| - financial guarantees and similar contracts | 43,583,864 | _ | 43,583,864 | 38,674,011 | _ | 38,674,011 | |
| loan and other credit-related commitments | 61,354,461 | _ | 61,354,461 | 56,550,579 | _ | 56,550,579 | |
| Total off-balance sheet | 104,938,325 | | 104,938,325 | 95,224,590 | _ | 95,224,590 | |

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

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

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

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2024

| | Non-credit impaired | | | | | Credit in | paired | | | |
|--|---------------------|-----------|-----------------|-----------|-----------------|-------------|-----------------|-----------|--------------------|-------------|
| | Stag | ge 1 | Sta | ge 2 | Sta | ge 3 | PC | OCI | To | tal |
| | Gross carrying/ | Allowance | Gross carrying/ | Allowance | Gross carrying/ | Allowance | Gross carrying/ | Allowance | Gross carrying/ | Allowance |
| | amount | for ECL | amount | for ECL | amount | for ECL | amount | for ECL | amount | for ECL |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| At 1 Jan 2024 | 80,922,760 | (109,957) | 5,869,661 | (134,537) | 3,001,476 | (2,018,368) | 11,130 | (5,664) | 89,805,027 | (2,268,526) |
| Transfers of financial instruments: | (1,850,325) | (53,913) | 1,298,966 | 141,449 | 551,359 | (87,536) | _ | _ | - | _ |
| Transfers from Stage 1 to Stage 2 | (6,600,677) | 14,064 | 6,600,677 | (14,064) | _ | _ | _ | - | - | - |
| Transfers from Stage 2 to Stage 1 | 4,750,352 | (67,977) | (4,750,352) | - | _ | _ | _ | _ | _ | _ |
| - Transfers to Stage 3 | _ | - | (593,016) | | 593,016 | (96,135) | _ | - | _ | - |
| - Transfers from Stage 3 | _ | _ | 41,657 | (8,599) | (41,657) | 8,599 | | _ | | |
| Net remeasurement of ECL arising from transfer of stage | - | 14,450 | - | (13,389) | _ | (292) | - | _ | _ | 769 |
| New financial assets originated or purchased | 28,471,299 | (45,800) | _ | _ | _ | _ | _ | _ | 28,471,299 | (45,800) |
| Asset derecognised (including final repayments) | (24,852,462) | 19,536 | (621,963) | 27,362 | (243,930) | 148,484 | _ | _ | (25,718,355) | 195,382 |
| Changes to risk parameters – further lending/repayments (including changes in credit quality and model | | | | | | | | | | |
| used) | 16,602,821 | 62,892 | (2,522,597) | (145,581) | (117,545) | (231,753) | 2,046 | 2,110 | 13,964,725 | (312,332) |
| Assets written off | _ | | | _ | (610,823) | 610,823 | | | (610,823) | 610,823 |
| Others | | 7 | | - | | (68,353) | | - | _ | (68,346) |
| At 31 Dec 2024 | 99,294,093 | (112,785) | 4,024,067 | (124,696) | 2,580,537 | (1,646,995) | 13,176 | (3,554) | 105,911,873 | (1,888,030) |
| ECL (charge)/release for the period | _ | 51,078 | _ | (131,608) | _ | (83,561) | _ | 2,110 | _ | (161,981) |
| Recoveries | _ | | _ | | _ | 44,019 | _ | | _ | 44,019 |
| Total ECL (charge)/ release for the period | _ | 51,078 | _ | (131,608) | _ | (39,542) | - | 2,110 | - | (117,962) |

| | At 31 De | ec 2024 | Twelve months ended 31 Dec 2024 |
|--|-----------------|-------------|---------------------------------------|
| | Gross carrying/ | Allowance | ECL and other |
| | nominal amount | for ECL | credit charges |
| | AED000 | AED000 | AED000 |
| As above | 105,911,873 | (1,888,030) | (117,962) |
| Other financial assets measured at amortised cost | 45,936,575 | (4,018) | 5,961 |
| Performance and other guarantees not considered for IFRS 9 | _ | _ | (434,988) |
| Summary of financial instruments to which the impairment requirements in | | | |
| IFRS 9 are applied/ Summary income statement | 151,848,448 | (1,892,048) | (546,989) |
| Debt instruments measured at FVOCI | 19,132,251 | (3,083) | 4,422 |
| Change in expected credit losses and other credit impairment charges | _ | (1,895,131) | (542,567) |

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2024 and that are still subject to enforcement activity is AED 471 million (31 December 2023: AED 442 million).

Notes on the financial statements

As shown in the previous table, the allowance for ECL for loans and advances to customers and banks and relevant loan commitments and financial guarantees decreased by AED 381 million during the year from AED 2,269 million at 31 December 2023 to AED 1,888 million at 31 December 2024.

This decrease was primarily driven by:

- AED 611 million of assets written off; and
- AED 195 million due to assets derecognised.

These were partly offset by:

- AED 46 million relating to new financial assets originated or purchased;
- AED 312 million relating to changes in risk parameters; and
- AED 65 million relating to other movements.

The ECL charge for the period of AED 162 million presented in the previous table consisted of AED 312 million charge relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages, AED 0.8 million charge relating to the net remeasurement impact of stage transfers and AED 149 million release relating to underlying net book volume movement.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2023

| | | Non-credi | t impaired | ed Credit impaired | | | | | | |
|--|---------------|-----------|----------------|--------------------|-----------|-------------|-----------|----------|--------------|-------------|
| | Stag | je 1 | Stag | je 2 | Stag | je 3 | PC | CI | To | tal |
| | Gross | | Gross | | Gross | | Gross | | Gross | |
| | carrying/ | | carrying/ | | carrying/ | | carrying/ | | carrying/ | Allowance |
| | nominal | Allowance | nominal | Allowance | nominal | Allowance | nominal | | nominal | for |
| | amount | for ECL | amount | for ECL | amount | for ECL | amount | for ECL | amount | ECL |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| At 1 Jan 2023 | 88,310,846 | (110,935) | 5,854,475 | (182,569) | 3,666,728 | (2,542,232) | 13,505 | (10,484) | 97,845,554 | (2,846,220) |
| Transfers of financial | | | | | | | | | | |
| instruments: | 235,277 | (30,390) | (851,825) | 129,535 | 616,548 | (99,145) | | | | |
| Transfers from Stage 1 | | | | | | | | | | |
| to Stage 2 | (4,312,367) | 37,092 | 4,312,367 | (37,092) | _ | _ | _ | _ | _ | _ |
| - Transfers from Stage 2 | 4 5 4 7 6 4 4 | (07.400) | (4 5 47 6 4 4) | 67.400 | | | | | | |
| to Stage 1 | 4,547,644 | (67,482) | (4,547,644) | 67,482 | | | _ | _ | _ | - |
| - Transfers to Stage 3 | _ | _ | (699,984) | 114,135 | 699,984 | (114,135) | _ | _ | _ | - |
| - Transfers from Stage 3 | _ | _ | 83,436 | (14,990) | (83,436) | 14,990 | | | _ | _ |
| Net remeasurement of | | | | | | | | | | |
| ECL arising from transfer of stage | _ | 29,629 | _ | (40,042) | _ | (413) | _ | _ | _ | (10,826) |
| New financial assets | | | | (: = / = / | | (110) | | | | (10,000) |
| originated or purchased | 29,397,638 | (75,941) | _ | _ | _ | _ | _ | _ | 29,397,638 | (75,941) |
| Asset derecognised | | | | | | | | | | |
| (including final | | | | | | | | | | |
| repayments) | (38,932,456) | 30,720 | (443,867) | 26,833 | (118,465) | 30,816 | | | (39,494,788) | 88,369 |
| Changes to risk | | | | | | | | | | |
| parameters – further lending/repayments | | | | | | | | | | |
| (including changes in | | | | | | | | | | |
| credit quality and model | | | | | | | | | | |
| used) | 1,911,455 | 47,048 | 1,310,878 | (68,294) | (251,305) | (270,482) | (2,375) | 4,820 | 2,968,653 | (286,908) |
| Assets written off | _ | _ | _ | _ | (912,030) | 912,030 | _ | _ | (912,030) | 912,030 |
| Others | _ | (88) | _ | _ | _ | (48,942) | _ | _ | _ | (49,030) |
| At 31 Dec 2023 | 80,922,760 | (109,957) | 5,869,661 | (134,537) | 3,001,476 | (2,018,368) | 11,130 | (5,664) | 89,805,027 | (2,268,526) |
| ECL (charge)/release for | | | | | | | | | | |
| the period | | 31,456 | | (81,503) | | (240,079) | | 4,820 | | (285,306) |
| Recoveries | | | | | | 62,019 | | | | 62,019 |
| Others | | | | | | | | | | |
| Total ECL (charge)/release | | | | | | | | | | |
| for the period | | 31,456 | | (81,503) | | (178,060) | | 4,820 | | (223,287) |

| | At 31 Dec | 2023 | Twelve months ended 31 Dec 2023 |
|---|-----------------------------------|-------------------|---------------------------------------|
| _ | Gross carrying/ nominal amount | Allowance for ECL | ECL and other credit charges |
| | AED000 | AED000 | AED000 |
| As above | 89,805,027 | (2,268,526) | (223,287) |
| Other financial assets measured at amortised cost | 42,445,053 | (9,979) | (2,389) |
| Performance and other guarantees not considered for IFRS 9 | _ | _ | 59,151 |
| Summary of financial instruments to which the impairment requirements in IFRS 9 | 400.050.000 | (0.070.505) | (4.00.505) |
| are applied/ Summary income statement | 132,250,080 | (2,278,505) | (166,525) |
| Debt instruments measured at FVOCI | 16,845,605 | (7,505) | (6,650) |
| Change in expected credit losses and other credit impairment charges | | (2,286,010) | (173,175) |

Wholesale lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2024

| customers including loai | | Non-credit | | .003 41 01 100 | ,00111b01 20 | Credit in | nnaired | | | |
|--|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|
| | Stag | | • | ge 2 | Sta | ge 3 | - | OCI | To | tal |
| | Gross carrying/ | Allowance for ECL AED000 |
| At 1 Jan 2024 | 63,907,002 | (58,422) | | (27,605) | 2,859,678 | (1,911,888) | 11,130 | (5,664) | 71,149,968 | (2,003,579) |
| Transfers of financial | | | | | | | | (0,001) | 71,110,000 | (2,000,010) |
| instruments - Transfers from Stage 1 | (2,504,912) | (38,141) | 2,119,320 | 69,082 | 385,592 | (30,941) | _ | _ | | _ |
| to Stage 2 - Transfers from Stage 2 | (5,968,800) | 5,456 | 5,968,800 | (5,456) | - | _ | _ | _ | _ | _ |
| to Stage 1 | 3,463,888 | (43,597) | | 43,597 | _ | _ | _ | _ | _ | _ |
| Transfers to Stage 3Transfers from Stage 3 | _ | _ | (385,648) 56 | 30,941 | 385,648 (56) | (30,941) — | _ | _ | _ | _ |
| Net remeasurement of ECL arising from transfer of stage | _ | 9,849 | _ | (7,805) | _ | _ | _ | _ | _ | 2,044 |
| New financial assets | 20,378,220 | (19,177) | _ | _ | _ | _ | _ | _ | 20,378,220 | (19,177) |
| originated or purchased Asset derecognised | 20,376,220 | (13,177) | <u></u> | <u></u> | | | | <u>_</u> | 20,376,220 | (13,177) |
| (including final repayments) | (20,047,883) | 2,655 | (245,228) | 128 | (52,992) | 34,863 | _ | _ | (20,346,103) | 37,646 |
| Changes to risk parameters – further lending/repayments (including changes in credit quality and model | (-,,, | | (= 10,==0, | | (1-1-1-1 | | | | (20)0000 | |
| used) | 17,392,875 | 31,789 | (2,853,419) | (58,111) | (277,112) | (41,005) | 2,046 | 2,110 | 14,264,390 | (65,217) |
| Assets written off Others | | 7 | | | (442,442) | 442,442 (65,513) | <u> </u> | <u> </u> | (442,442) | 442,442 (65,506) |
| At 31 Dec 2024 | 79,125,302 | (71,440) | 3,392,831 | (24,311) | 2,472,724 | (1,572,042) | 13,176 | (3,554) | 85,004,033 | (1,671,347) |
| ECL (charge)/release for the period | _ | 25,116 | _ | (65,788) | _ | (6,142) | _ | 2,110 | _ | (44,704) |
| Recoveries | _ | | _ | | | 5,611 | | | | 5,611 |
| Others Total ECL (charge)/ | _ | | | | | <u> </u> | | <u> </u> | | |
| release for the period | _ | 25,116 | _ | (65,788) | | (531) | | 2,110 | | (39,093) |
| At 1 Jan 2023 | 71,009,672 | (30,266) | 5,127,391 | (55,431) | 3,387,589 | (2,385,685) | 13,505 | (10,484) | 79,538,157 | (2,481,866) |
| Transfers of financial instruments: | 1,280,393 | (7,334) | (1,812,125) | 51,554 | 531,732 | (44,220) | _ | | | _ |
| - Transfers from Stage 1 to Stage 2 | (2,552,142) | 3,150 | 2,552,142 | (3,150) | - | - | _ | _ | _ | _ |
| Transfers from Stage 2 to Stage 1 | 3,832,535 | (10,484) | (3,832,535) | 10,484 | _ | _ | _ | _ | _ | _ |
| - Transfers to Stage 3 |] - | - | (538,761) | 46,145 | 538,761 | (46,145) | _ | - | _ | _ |
| - Transfers from Stage 3 Net remeasurement of | _ | _ | 7,029 | (1,925) | (7,029) | 1,925 | _ | - | _ | _ |
| ECL arising from transfer of stage | | 4,480 | _ | (3,060) | _ | _ | _ | _ | _ | 1,420 |
| New financial assets originated or purchased | 22,613,719 | (13,097) | _ | | _ | | _ | _ | 22,613,719 | (13,097) |
| Asset derecognised (including final repayments) | (34,173,408) | 1,824 | (233,578) | 98 | (939) | _ | | _ | (34,407,925) | 1,922 |
| Changes to risk parameters – further lending/repayments (including changes in | (04,170,400) | 1,024 | (230,070) | | (000) | | | | (04,407,023) | 1,522 |
| credit quality and model used) | 3,176,626 | (13,941) | 1,290,470 | (20,766) | (286,902) | (205,020) | (2,375 |) 4,820 | 4,177,819 | (234,907) |
| Assets written off | | | | | (771,802) | 771,802 | | | (771,802) | 771,802 |
| Others At 31 Dec 2023 | 62 007 002 | (88) | 4 272 150 | (27 60E) | 2 050 670 | (48,765) | 11 120 | | 71 140 069 | (48,853) |
| ECL (charge)/release for | 63,907,002 | (58,422) | 4,372,158 | (27,605) | 2,859,678 | (1,911,888) | 11,130 | (5,664) | 71,149,968 | (2,003,579) |
| the period | | (20,734) | | (23,728) | | (205,020) | | 4,820 | | (244,662) |
| Recoveries Others | | | | | | 16,727 | | | | 16,727 |
| Total ECL (charge)/ release for the period | _ | (20,734) | _ | (23,728) | _ | (188,293) | _ | 4,820 | _ | (227,935) |

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2024

| | Non-credit impaired Credit impaired | | | mpaired | | | | |
|---|---|-------------------|---|-------------------|---|----------------------|---|-------------------|
| | Stag | ge 1 | Stag | ge 2 | Sta | ge 3 | To | tal |
| | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| At 1 Jan 2024 | 17,015,758 | (51,535) | 1,497,503 | (106,932) | 141,798 | (106,480) | 18,655,059 | (264,947) |
| Transfers of financial instruments: | 654,587 | (15,772) | (820,354) | 72,367 | 165,767 | (56,595) | _ | _ |
| - Transfers from Stage 1 to Stage 2 | (631,877) | 8,608 | 631,877 | (8,608) | _ | - | - | -1 |
| - Transfers from Stage 2 to Stage 1 | 1,286,464 | (24,380) | (1,286,464) | 24,380 | _ | _ | _ | - |
| - Transfers to Stage 3 | _ | _ | (207,368) | 65,194 | 207,368 | (65,194) | _ | _ |
| - Transfers from Stage 3 | _ | _ | 41,601 | (8,599) | (41,601) | 8,599 | _ | _ |
| Net remeasurement of ECL arising from transfer of | | | | | | | | |
| stage | | 4,601 | | (5,584) | | (292) | _ | (1,275) |
| New financial assets originated or purchased | 8,093,079 | (26,623) | | | _ | _ | 8,093,079 | (26,623) |
| Asset derecognised (including final repayments) | (4,804,579) | 16,881 | (376,735) | 27,234 | (190,938) | 113,621 | (5,372,252) | 157,736 |
| Changes to risk parameters – further lending/ repayments (including changes in credit quality and model used) | (790,054) | 31,103 | 330,822 | (87,470) | 159,567 | (190,748) | (299,665) | (247,115) |
| Assets written off | _ | _ | _ | _ | (168,381) | 168,381 | (168,381) | 168,381 |
| Foreign exchange | _ | _ | _ | _ | | _ | _ | _ |
| Others | _ | _ | | _ | | (2,840) | _ | (2,840) |
| At 31 Dec 2024 | 20,168,791 | (41,345) | 631,236 | (100,385) | 107,813 | | 20,907,840 | (216,683) |
| ECL (charge)/release for the period | _ | 25,962 | | (65,820) | | (77,419) | | (117,277) |
| Recoveries | _ | _ | _ | | _ | 38,408 | _ | 38,408 |
| Others | _ | _ | _ | _ | _ | _ | _ | _ |
| Total ECL (charge)/release for the period | _ | 25,962 | _ | (65,820) | _ | (39,011) | _ | (78,869) |
| | | | | | | | | |
| At 1 Jan 2023 | 17,301,174 | (80,669) | 727,084 | (127,138) | 279,139 | (156,547) | 18,307,397 | (364,354) |
| Transfers of financial instruments: | (1,045,116) | (23,056) | 960,300 | 77,981 | 84,816 | (54,925) | _ | |
| - Transfers from Stage 1 to Stage 2 | (1,760,225) | 33,942 | 1,760,225 | (33,942) | _ | _ | _ | _ |
| - Transfers from Stage 2 to Stage 1 | 715,109 | (56,998) | (715,109) | 56,998 | _ | _ | _ | _ |
| - Transfers to Stage 3 | | - | (161,223) | 67,990 | 161,223 | (67,990) | _ | _ |
| - Transfers from Stage 3 | _ | - | 76,407 | (13,065) | (76,407) | 13,065 | _ | _ |
| Net remeasurement of ECL arising from transfer of | | | | | | | | |
| stage | | 25,149 | | (36,982) | | (413) | | (12,246) |
| New financial assets originated or purchased | 6,783,919 | (62,844) | | | | | 6,783,919 | (62,844) |
| Asset derecognised (including final repayments) | (4,759,048) | 28,896 | (210,288) | 26,735 | (117,526) | 30,816 | (5,086,863) | 86,447 |
| Changes to risk parameters – further lending/ repayments (including changes in credit quality and | (1,265,171) | 60.989 | 20.409 | (47 520) | 35,597 | (SE 462) | (1 200 166) | (E2 001) |
| model used) | | , | 20,408 | (47,528) | · · · · · · · · · · · · · · · · · · · | (65,462) | (1,209,166) | (52,001) |
| Assets written off | | | | | (140,228) | 140,228 | (140,228) | 140,228 |
| Others | 17.015.750 | /F1 F0F) | 1 407 500 | (100,000) | 141 700 | (177) | 10.055.050 | (177) |
| At 31 Dec 2023 | 17,015,758 | (51,535) | 1,497,503 | (106,932) | 141,798 | | 18,655,059 | (264,947) |
| ECL release/(charge) for the period | | 52,190 | | (57,775) | _ | (35,059) | | (40,644) |
| Recoveries | | | | | | 45,292 | | 45,292 |
| Others | | | | | | | | |
| Total ECL (charge)/release for the period | | 52,190 | | (57,775) | | 10,233 | | 4,648 |

Credit quality of financial instruments

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

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

Credit quality classification

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

Customer risk rating.

46

^{2 12-}month point-in-time probability weighted probability of default ('PD').

Quality classification definitions

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

Risk rating scales

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

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

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

Distribution of financial instruments by credit quality at 31 December 2024

| | | Gı | oss carrying/n | otional amour | nt | | | |
|--|-------------|------------|----------------|---------------|-----------|-------------|-------------|-------------|
| | _ | | | Sub- | Credit | | Allowance | |
| | Strong | Good | Satisfactory | Standard | impaired | Total | for ECL | Net |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| In-scope for IFRS 9 | | | | | | | | |
| Loans and advances to customers held at amortised cost | 18,692,320 | 15,057,799 | 14,704,074 | 740,955 | 2,556,829 | 51,751,977 | (1,847,031) | 49,904,946 |
| Loans and advances to banks held | ,, | ,, | ,, | 1 10,000 | | | (1,011,001, | , |
| at amortised cost | 26,047,420 | 4,093 | 225,722 | 797 | _ | 26,278,032 | (1,225) | 26,276,807 |
| Cash | 713,194 | _ | _ | _ | _ | 713,194 | _ | 713,194 |
| Reverse repurchase agreements – non-trading | 29,757,151 | _ | 4,416 | _ | _ | 29,761,567 | _ | 29,761,567 |
| Prepayments, accrued income and other assets | 398,277 | 912,619 | 2,056,253 | 21,611 | 25 | 3,388,785 | (2,503) | 3,386,282 |
| endorsements and acceptances | 129,393 | 900,647 | 961,911 | 21,611 | - | 2,013,562 | (1,676) | 2,011,886 |
| accrued income and other | 268,884 | 11,972 | 1,094,342 | | 25 | 1,375,223 | (827) | 1,374,396 |
| Financial investments at amortised cost | 7,682,635 | _ | 4,390,394 | _ | _ | 12,073,029 | (1,515) | 12,071,514 |
| Debt instruments measured at fair value through other comprehensive income ¹ | 18,384,820 | _ | 885,529 | _ | _ | 19,270,349 | (3,083) | 19,267,266 |
| Out-of-scope for IFRS 9 | | | | | | | | |
| Trading assets | 5,512,816 | 74,925 | 801,193 | 73,090 | 5,530 | 6,467,554 | _ | 6,467,554 |
| Other financial assets designated and otherwise mandatorily measured at fair value through | | 20,154 | 18,518 | | | 38,672 | | 38.672 |
| profit or loss | | | | 4 505 | | <u>-</u> | | |
| Derivatives | 3,440,938 | 54,588 | 80,011 | 1,595 | _ | 3,577,132 | | 3,577,132 |
| Total gross carrying amount on balance sheet | 110,629,571 | 16,124,178 | 23,166,110 | 838,048 | 2,562,384 | 153,320,291 | (1,855,357) | 151,464,934 |
| Percentage of total credit quality | 72% | 11% | 15% | 1% | 2% | 100% | | |
| Loan and other credit related commitments | 13,078,624 | 7,214,981 | 5,355,021 | 10,139 | 16,855 | 25,675,620 | (35,290) | 25,640,330 |
| Financial guarantees | 826,320 | 671,933 | 654,110 | 33,852 | 20,029 | 2,206,244 | (4,484) | 2,201,760 |
| Total nominal amount off balance sheet | 13,904,944 | 7,886,914 | 6,009,131 | 43,991 | 36,884 | 27,881,864 | (39,774) | 27,842,090 |
| At 31 Dec 2024 | 124,534,515 | 24,011,092 | 29,175,241 | 882,039 | 2,599,268 | 181,202,155 | (1,895,131) | 179,307,024 |

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

Distribution of financial instruments by credit quality at 31 December 2023

| | | G | ross carrying/no | tional amount | | | | |
|--|-------------|------------|------------------|------------------|--------------------|-------------|----------------------|-------------|
| - | Strong | Good | Satisfactory | Sub- standard | Credit impaired | Total | Allowance for ECL | Net |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| In-scope for IFRS 9 | | | | | | | | |
| Loans and advances to customers held at amortised cost | 20,521,965 | 10,424,869 | 13,579,209 | 1,192,954 | 2,882,805 | 48,601,802 | (2,250,482) | 46,351,320 |
| Loans and advances to banks held at amortised cost | 19,148,856 | 230,400 | 356,669 | 205 | _ | 19,736,130 | (1,207) | 19,734,923 |
| Cash | 897,814 | _ | _ | _ | _ | 897,814 | _ | 897,814 |
| Reverse repurchase agreements – non-trading | 17,533,617 | 839,942 | 7,586,491 | _ | _ | 25,960,050 | _ | 25,960,050 |
| Prepayments, accrued income and other assets | 373,362 | 394,785 | 2,026,002 | 29,124 | 5,897 | 2,829,170 | -8,695 | 2,697,944 |
| endorsements and acceptances | 49,707 | 394,785 | 696,831 | 29,124 | 154 | 1,170,601 | (660) | 1,169,941 |
| accrued income and other | 323,655 | _ | 1,329,171 | _ | 5,743 | 1,658,569 | (8,035) | 1,528,003 |
| Financial investments at amortised cost | 11,876,048 | _ | 881,971 | _ | _ | 12,758,019 | (1,284) | 12,756,735 |
| Debt instruments measured at fair value through other comprehensive income | 16,811,732 | _ | 131,401 | _ | _ | 16,943,133 | (7,505) | 16,935,628 |
| Out-of-scope for IFRS 9 | | | | | | | | |
| Trading assets | 4,806,657 | 238,524 | 980,149 | 50,567 | 14,993 | 6,090,890 | _ | 6,090,890 |
| Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss | _ | 20,071 | 17,075 | _ | _ | 37,146 | _ | 37,146 |
| Derivatives | 4,195,747 | 48,748 | 93,449 | 914 | _ | 4,338,858 | _ | 4,338,858 |
| Total gross carrying amount on balance sheet | 96,165,798 | 12,197,339 | 25,652,416 | 1,273,764 | 2,903,695 | 138,193,012 | (2,269,173) | 135,923,839 |
| Percentage of total credit quality | 70% | 9% | 19% | 1% | 2% | 100% | | |
| Loan and other credit related commitments | 12,653,755 | 4,910,177 | 1,887,829 | 41,159 | 90,412 | 19,583,332 | (16,386) | 19,566,946 |
| Financial guarantees | 772,272 | 464,834 | 507,153 | 81,439 | 39,389 | 1,865,087 | (451) | 1,864,636 |
| Total nominal amount off balance sheet | 13,426,027 | 5,375,011 | 2,394,982 | 122,598 | 129,801 | 21,448,419 | (16,837) | 21,431,582 |
| At 31 Dec 2023 | 109,591,825 | 17,572,350 | 28,047,398 | 1,396,362 | 3,033,496 | 159,641,431 | (2,286,010) | 157,355,421 |

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2024

| | | Gı | oss carrying/no | otional amoun | nt | | | |
|--|-------------|------------|-----------------|---------------|-----------|-------------|-------------|-------------|
| | | | | Sub- | Credit | | Allowance | |
| | Strong | Good | Satisfactory | standard | impaired | Total | for ECL | Net |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Gross carrying amount on | | | | | | | | |
| balance sheet | 101,675,817 | 15,974,511 | 22,266,388 | 763,363 | 2,556,854 | 143,236,933 | (1,855,357) | 141,381,576 |
| Loans and advances to | | | | | | | | |
| customers held at amortised cost | 18,692,320 | 15,057,799 | 14,704,074 | 740,955 | 2,556,829 | 51,751,977 | (1,847,031) | 49,904,946 |
| - stage 1 | 18,600,743 | 14,052,216 | 13,600,108 | 15,582 | - | 46,268,649 | (94,355) | 46,174,294 |
| - stage 2 | 91,577 | 1,005,583 | 1,103,966 | 725,373 | - | 2,926,499 | (120,231) | 2,806,268 |
| - stage 3 | - | _ | - | - | 2,543,653 | 2,543,653 | (1,628,891) | 914,762 |
| - POCI | _ | _ | _ | - | 13,176 | 13,176 | (3,554) | 9,622 |
| Loans and advances to banks | | | | | | | | |
| held at amortised cost | 26,047,420 | 4,093 | 225,722 | 797 | | 26,278,032 | (1,225) | 26,276,807 |
| - stage 1 | 26,047,420 | 4,093 | 52,642 | _ | - | 26,104,155 | (588) | 26,103,567 |
| - stage 2 | _ | _ | 173,080 | 797 | - | 173,877 | (637) | 173,240 |
| - stage 3 | _ | _ | - | _ | - | - | - | - |
| - POCI | _ | _ | _ | | _ | | | _ |
| Other financial assets measured | 00 554 053 | 242.242 | 0.454.000 | 04.044 | | 45 000 535 | (4.040) | 45 000 553 |
| at amortised costs | 38,551,257 | 912,619 | 6,451,063 | 21,611 | 25 | 45,936,575 | (4,018) | 45,932,557 |
| - stage 1 | 38,551,257 | 911,338 | 6,359,639 | 2,547 | - | 45,824,781 | (3,643) | 45,821,138 |
| - stage 2 | _ | 1,281 | 91,424 | 19,064 | - | 111,769 | (350) | 111,419 |
| - stage 3 | _ | _ | - | _ | 25 | 25 | (25) | - |
| - POCI | _ | _ | _ | | _ | | | _ |
| Debt instruments measured at | | | | | | | | |
| fair value through other comprehensive income ¹ | 18,384,820 | _ | 885,529 | _ | _ | 19,270,349 | (3,083) | 19,267,266 |
| | 18,384,820 | | 885,529 | | | 19,270,349 | (3,083) | 19,267,266 |
| - stage 1 - stage 2 | 10,304,020 | _ | 000,029 | _ | _ | 19,270,349 | (3,063) | 15,207,200 |
| | _ | _ | _ | _ | _ | _ | - | _ |
| - stage 3 - POCI | _ | _ | _ | _ | _ | _ | - | _ |
| Nominal amount off balance | _ | | _ | | _ | | | |
| sheet | 13,904,944 | 7,886,914 | 6,009,131 | 43,991 | 36,884 | 27,881,864 | (39,774) | 27,842,090 |
| Loan and other credit-related | | | | | | | | |
| commitments | 13,078,624 | 7,214,981 | 5,355,021 | 10,139 | 16,855 | 25,675,620 | (35,290) | 25,640,330 |
| - stage 1 | 13,020,297 | 7,076,461 | 4,737,153 | 2,409 | _ | 24,836,320 | (17,570) | 24,818,750 |
| - stage 2 | 58,327 | 138,520 | 617,868 | 7,730 | _ | 822,445 | (3,552) | 818,893 |
| - stage 3 | _ | _ | _ | _ | 16,855 | 16,855 | (14,168) | 2,687 |
| - POCI | _ | _ | _ | _ | _ | _ | | _ |
| Financial guarantees | 826,320 | 671,933 | 654,110 | 33,852 | 20,029 | 2,206,244 | (4,484) | 2,201,760 |
| - stage 1 | 826,270 | 667,433 | 590,165 | 1,101 | _ | 2,084,969 | (272) | 2,084,697 |
| - stage 2 | 50 | 4,500 | 63,945 | 32,751 | _ | 101,246 | (276) | 100,970 |
| - stage 3 | _ | _ | _ | _ | 20,029 | 20,029 | (3,936) | 16,093 |
| - POCI | _ | _ | _ | _ | _ | _ | _ | _ |
| At 31 Dec 2024 | 115,580,761 | 23,861,425 | 28,275,519 | 807,354 | 2,593,738 | 171,118,797 | (1,895,131) | 169,223,666 |

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

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2023

| | | G | iross carrying/no | otional amount | | | | |
|---|-------------|------------|-------------------|------------------|--------------------|-------------|----------------------|-------------|
| | Strong | Good | Satisfactory | Sub- standard | Credit impaired | Total | Allowance for ECL | Net |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Gross carrying amount on balance | | | | | | | | |
| sheet | 87,163,395 | 11,889,995 | 24,561,743 | 1,222,283 | 2,888,702 | 127,726,118 | (2,269,173) | 125,456,945 |
| Loans and advances to customers | | | | | | | | |
| held at amortised cost | 20,521,965 | 10,424,869 | 13,579,209 | 1,192,954 | 2,882,805 | 48,601,802 | (2,250,482) | 46,351,320 |
| - stage 1 | 19,535,412 | 9,160,348 | 11,802,694 | 101,812 | _ | 40,600,266 | (94,868) | 40,505,398 |
| - stage 2 | 986,553 | 1,264,521 | 1,776,515 | 1,091,142 | _ | 5,118,731 | (131,984) | 4,986,747 |
| - stage 3 | _ | _ | _ | _ | 2,871,675 | 2,871,675 | (2,017,966) | 853,709 |
| - POCI | _ | | | | 11,130 | 11,130 | (5,664) | 5,466 |
| Loans and advances to banks | 10 140 0EC | 220 400 | 256,660 | 205 | | 10 706 100 | (1.207) | 10 704 000 |
| held at amortised cost | 19,148,856 | 230,400 | 356,669 | 205 | | 19,736,130 | (1,207) | 19,734,923 |
| - stage 1 | 19,148,856 | 230,400 | 45,909 | | _ | 19,425,165 | (732) | 19,424,433 |
| - stage 2 | _ | _ | 310,760 | 205 | _ | 310,965 | (475) | 310,490 |
| - stage 3 - POCI | _ | _ | - | _ | _ | - | _ | _ |
| Other financial assets measured | _ | _ | _ | _ | _ | | | |
| at amortised costs | 30,680,842 | 1,234,726 | 10,494,464 | 29,124 | 5,897 | 42,445,053 | (9,979) | 42,435,074 |
| - stage 1 | 30,680,842 | 1,217,589 | 10,447,002 | _ | _ | 42,345,433 | (4,081) | 42,341,352 |
| - stage 2 | _ | 17,137 | 47,462 | 29,124 | _ | 93,723 | (155) | 93,568 |
| - stage 3 | _ | _ | _ | _ | 5,897 | 5,897 | (5,743) | 154 |
| - POCI | _ | _ | | | _ | | | _ |
| Debt instruments measured at | | | | | | | | |
| fair value through other comprehensive income | 16,811,732 | _ | 131,401 | _ | _ | 16,943,133 | (7,505) | 16,935,628 |
| - stage 1 | 16,811,732 | _ | 131,401 | _ | _ | 16,943,133 | (7,505) | 16,935,628 |
| - stage 2 | _ | _ | _ | _ | _ | - | _ | _ |
| - stage 3 | _ | _ | _ | _ | _ | _ | _ | _ |
| - POCI | _ | _ | _ | _ | _ | | | _ |
| Nominal amount off balance sheet | 13,426,027 | 5,375,011 | 2,394,982 | 122,598 | 129,801 | 21,448,419 | (16,837) | 21,431,582 |
| Loan and other credit-related | | | | | | | | |
| commitments | 12,653,755 | 4,910,177 | 1,887,829 | 41,159 | 90,412 | 19,583,332 | (16,386) | 19,566,946 |
| - stage 1 | 12,653,103 | 4,799,800 | 1,726,895 | 32,412 | _ | 19,212,210 | (14,051) | 19,198,159 |
| - stage 2 | 652 | 110,377 | 160,934 | 8,747 | _ | 280,710 | (1,939) | 278,771 |
| - stage 3 | _ | _ | _ | _ | 90,412 | 90,412 | (396) | 90,016 |
| - POCI | _ | _ | _ | _ | _ | _ | | _ |
| Financial guarantees | 772,272 | 464,834 | 507,153 | 81,439 | 39,389 | 1,865,087 | (451) | 1,864,636 |
| - stage 1 | 772,222 | 440,025 | 452,988 | 1,208 | _ | 1,666,443 | (306) | 1,666,137 |
| - stage 2 | 50 | 24,809 | 54,165 | 80,231 | _ | 159,255 | (139) | 159,116 |
| - stage 3 | _ | _ | _ | _ | 39,389 | 39,389 | (6) | 39,383 |
| - POCI | _ | _ | _ | _ | | _ | _ | _ |
| At 31 Dec 2023 | 100,589,422 | 17,265,006 | 26,956,725 | 1,344,881 | 3,018,503 | 149,174,537 | (2,286,010) | 146,888,527 |

Past due but not impaired gross financial instruments

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

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

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

Stage 2 days past due analysis

| | Gross o | arrying am | ount | Allov | wance for E | CL | ECL | . coverage | % |
|--|-----------|----------------|-----------------|-----------|----------------|-----------------|---------|----------------|-----------------|
| | Stage 2 | 1 to 29 DPD | 30 and > DPD | Stage 2 | 1 to 29 DPD | 30 and > DPD | Stage 2 | 1 to 29 DPD | 30 and > DPD |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | % | % | % |
| Loans and advances to customers held at amortised cost | 2,926,499 | 39,938 | 52,713 | (120,231) | (12,644) | (19,955) | (4.1) | (31.7) | (37.9) |
| - personal | 550,778 | 37,195 | 42,260 | (100,382) | (12,639) | (19,764) | (18.2) | (34.0) | (46.8) |
| corporate and commercial | 2,375,698 | 2,743 | 10,430 | (19,849) | (5) | (191) | (0.8) | (0.2) | (1.8) |
| non-bank financial institutions | 23 | | 23 | _ | _ | | _ | _ | _ |
| Loans and advances to banks at amortised cost | 173,877 | _ | _ | (637) | _ | _ | (0.4) | _ | _ |
| Other financial assets measured at amortised cost | 111,769 | 5,432 | 13,289 | (350) | (2) | (36) | (0.3) | _ | (0.3) |
| At 31 Dec 2024 | 3,212,145 | 45,370 | 66,002 | (121,218) | (12,646) | (19,991) | (3.8) | (27.9) | (30.3) |
| Loans and advances to customers held at amortised cost | 5,118,731 | 88,410 | 176,716 | (131,984) | (10,257) | (18,889) | (2.6) | (11.6) | (10.7) |
| - personal | 1,415,704 | 46,837 | 39,097 | (106,924) | (8,966) | (17,388) | (7.6) | (19.1) | (44.5) |
| - corporate and commercial | 3,703,027 | 41,573 | 137,616 | (25,060) | (1,291) | (1,501) | (0.7) | (3.1) | (1.1) |
| - non-bank financial institutions | | | | | | | | | |
| Loans and advances to banks at amortised cost | 310,965 | _ | _ | (475) | _ | _ | (0.2) | _ | _ |
| Other financial assets measured at amortised cost | 93,723 | 1,050 | 894 | (155) | _ | (9) | (0.2) | _ | (1.0) |
| At 31 Dec 2023 | 5,523,419 | 89,460 | 177,610 | (132,614) | (10,257) | (18,898) | (2.4) | (11.5) | (10.6) |

Credit-impaired loans

We determine 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 when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Forborne loans and advances

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

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

Credit quality of forborne loans

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

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

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

Forborne loans and recognition of expected credit losses

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

Forborne loans and advances to customers by industry sector at 31 December 2024

| | First lien residential mortgages AED000 | Other personal lending AED000 | Corporate and commercial AED000 | Non-bank financial institutions AED000 | Total forborne loans AED000 |
|--|---|--|--|---|--------------------------------------|
| Stage 2 | 5,780 | 8,448 | 20,905 | _ | 35,133 |
| Stage 3 | 32,479 | 47,884 | 1,439,914 | _ | 1,520,277 |
| Forborne loans At 31 Dec 2024 | 38,259 | 56,332 | 1,460,819 | _ | 1,555,410 |
| Allowance for expected credit losses on forborne loans | | | | | 638,081 |
| Stage 2 | 22,632 | 4,564 | 12,695 | | 39,891 |
| Stage 3 | 29,324 | 61,538 | 1,519,477 | _ | 1,610,339 |
| Forborne loans At 31 Dec 2023 | 51,956 | 66,102 | 1,532,172 | | 1,650,230 |
| Allowance for expected credit losses on forborne loans | | | | | 758,220 |

[■] For details of our impairment policies on loans and advances and financial investments, see Note 2.2(g) on the Financial Statements.

Gross loans and advances to customers by industry sector

| | Gross loans and custome | |
|--|-------------------------|-----------------|
| | | As a % of total |
| | Total | gross loans |
| At 31 Dec 2024 | AED000 | % |
| Personal | | |
| - residential mortgages | 7,648,207 | 14.8 |
| - other personal | 4,915,102 | 9.5 |
| | 12,563,309 | 24.3 |
| Corporate and commercial | | |
| - commercial, industrial and international trade | 25,104,041 | 48.5 |
| - commercial real estate and other property-related | 5,957,497 | 11.5 |
| - government | 403,646 | 0.8 |
| - other corporate and commercial | 6,870,757 | 13.3 |
| | 38,335,941 | 74.1 |
| Financial | | |
| - non-bank financial institutions | 852,727 | 1.6 |
| Total gross loans and advances to customers | 51,751,977 | 100.0 |
| Impaired loans | | |
| - as a percentage of gross loans and advances to customers | 4.94 % | |
| Total impairment allowances | | |
| - as a percentage of gross loans and advances to customers | 3.57 % | |
| At 31 Dec 2023 | | |
| Personal | | |
| - residential mortgages | 7,189,070 | 14.8 |
| - other personal | 4,867,360 | 10.0 |
| · | 12,056,430 | 24.8 |
| Corporate and commercial | | |
| - commercial, industrial and international trade | 21,103,368 | 43.4 |
| - commercial real estate and other property-related | 6,413,283 | 13.2 |
| - government | 164,724 | 0.3 |
| - other corporate and commercial | 7,684,827 | 15.8 |
| | 35,366,202 | 72.8 |
| Financial | | |
| - non-bank financial institutions | 1,179,170 | 2.4 |
| Total gross loans and advances to customers | 48,601,802 | 100.0 |
| Impaired loans | | |
| - as a percentage of gross loans and advances to customers | 5.93% | |
| Total impairment allowances | | |
| - as a percentage of gross loans and advances to customers | 4.63% | |

Collateral and other credit enhancements held

Loans and advances held at amortised cost

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

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

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

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

| | | 2024 | | | | 2023 | | |
|---|-----------|--------------|-------------|-----------|-----------|---------------|------------|-----------|
| | Gros | s carrying/n | ominal amou | nt | Gro | ss carrying/n | ominal amo | unt |
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Fully collateralised by LTV ratio | 7,461,371 | 147,293 | 32,479 | 7,641,143 | 6,055,631 | 1,091,601 | 26,803 | 7,174,035 |
| - less than 50% | 4,869,932 | 99,935 | 18,103 | 4,987,970 | 3,515,421 | 605,779 | 13,247 | 4,134,447 |
| - 51% to 70% | 1,954,496 | 34,674 | 10,861 | 2,000,031 | 2,024,759 | 396,419 | 10,954 | 2,432,132 |
| - 71% to 80% | 619,176 | 12,228 | 1,382 | 632,786 | 500,029 | 81,964 | - | 581,993 |
| - 81% to 90% | 17,767 | - | 2,133 | 19,900 | 11,667 | 6,045 | 1,403 | 19,115 |
| - 91% to 100% | _ | 456 | - | 456 | 3,755 | 1,394 | 1,199 | 6,348 |
| Partially collateralised (A): LTV > 100% | 7,063 | _ | _ | 7,063 | 6,230 | 4,380 | 5,509 | 16,119 |
| collateral value on A | 6,296 | _ | _ | 6,296 | 5,127 | 3,122 | 3,438 | 11,687 |
| Total at 31 Dec | 7,468,434 | 147,293 | 32,479 | 7,648,206 | 6,061,861 | 1,095,981 | 32,312 | 7,190,154 |

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

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

Other personal lending

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

Collateral on loans and advances

Commercial real estate loans and advances

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

Wholesale lending: commercial real estate loans and advances including loan commitments by level of collateral (by stage)

| | | 2024 | | | 2023 | | | | | |
|---|-----------|-------------|------------|-----------|-----------|-----------|------------|-------------|----------|-----------|
| | | Gross carry | ing/nomina | al amount | | | Gross carr | ying/nomina | l amount | |
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Non Collateralised | 3,412,860 | 14 | 1,126 | _ | 3,414,000 | 2,079,221 | 718,247 | 95,352 | _ | 2,892,820 |
| Fully collateralised by LTV ratio | 1,011,228 | _ | 429,027 | _ | 1,440,255 | 741,254 | _ | 439,066 | _ | 1,180,320 |
| - less than 50% | 523,217 | _ | _ | _ | 523,217 | 130,034 | _ | _ | _ | 130,034 |
| - 51% to 75% | 244,296 | - | 126,805 | _ | 371,101 | 326,509 | _ | _ | _ | 326,509 |
| - 76% to 90% | 77,300 | - | 302,222 | _ | 379,522 | 284,711 | - | 130,555 | - | 415,266 |
| - 91% to 100% | 166,415 | - | _ | _ | 166,415 | _ | - | 308,511 | - | 308,511 |
| Partially collateralised (A): LTV > | | | | | | | | | | |
| 100% | 884,314 | _ | - | - | 884,314 | 1,746,411 | _ | _ | _ | 1,746,411 |
| collateral value on A | 477,800 | _ | _ | _ | 477,800 | 1,153,181 | _ | _ | _ | 1,153,181 |
| Total at at 31 Dec | 5,308,402 | 14 | 430,153 | _ | 5,738,569 | 4,566,886 | 718,247 | 534,418 | _ | 5,819,551 |

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

The value of commercial real estate collateral is determined through a combination of professional and internal valuations and physical inspection. Due to the complexity of valuing collateral for commercial real estate, local valuation policies determine the frequency of review based on local market conditions. Revaluations are sought with greater frequency when, as part of the regular credit assessment of the obligor,

material concerns arise in relation to the transaction which may reflect on the underlying performance of the collateral, or in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation (i.e. the obligor's credit quality classification indicates it is at the lower end, that is sub-standard, or approaching impaired). Where such concerns exist the revaluation method selected will depend upon the loan-to-value relationship, the direction in which the local commercial real estate market has moved since the last valuation and, most importantly, the specific characteristics of the underlying commercial real estate which is of concern.

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

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

| | 2024 | | | | 2023 | | | | | |
|---|------------|------------|------------|-----------|------------|------------|------------|-------------|--------|------------|
| | | Gross carr | ying/nomin | al amount | | | Gross carr | ying/nomina | amount | |
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 |
| Non Collateralised | 75,004,097 | 2,517,807 | 1,170,713 | 2,826 | 78,695,443 | 71,938,742 | 2,616,802 | 1,200,030 | 2,654 | 75,758,228 |
| Fully collateralised by LTV ratio | 618,391 | 50,484 | 380,784 | _ | 1,049,659 | 388,168 | 280,025 | 370,511 | _ | 1,038,704 |
| - less than 50% | 226,530 | 29,821 | 338,047 | _ | 594,398 | 92,313 | 61,434 | 364,663 | _ | 518,410 |
| - 51% to 75% | 87,889 | - | - | _ | 87,889 | 97,759 | 204,823 | 3,350 | _ | 305,932 |
| - 76% to 90% | 222,404 | 12,538 | - | _ | 234,942 | 176,276 | _ | _ | _ | 176,276 |
| - 91% to 100% | 81,568 | 8,125 | 42,737 | _ | 132,430 | 21,820 | 13,768 | 2,498 | _ | 38,086 |
| Partially collateralised (A): | | | | | | | | | | _ |
| LTV > 100% | 4,060,036 | 608,024 | 471,054 | 10,350 | 5,149,464 | 2,616,763 | 345,483 | 715,336 | 8,475 | 3,686,057 |
| collateral value on A | 1,280,464 | 220,876 | 97,031 | 2,716 | 1,601,087 | 529,856 | 63,122 | 179,428 | 959 | 773,365 |
| Total at 31 Dec | 79,682,524 | 3,176,315 | 2,022,551 | 13,176 | 84,894,566 | 74,943,673 | 3,242,310 | 2,285,877 | 11,129 | 80,482,989 |

Other credit risk exposures

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

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

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

Derivatives

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

Treasury Risk

Overview

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

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

Approach and policy

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

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

Governance and structure

The group Head of Traded and Treasury Risk Management is the accountable risk steward for all treasury risks. The group Treasurer is the risk owner for all treasury risks, with the exception of pension risk and insurance risk.

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

Assessment and risk appetite

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

We aim to ensure that management has oversight of our liquidity and funding risks through robust governance, in line with our risk management framework. We manage liquidity and funding risk in accordance with consistent policies, procedures and reporting standards. This ensures that obligations can be met in a timely manner, in the jurisdiction where they fall due. We are required to meet internal minimum requirements and any applicable regulatory requirements at all times.

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates or changes in expected interest rate repricing of client products that impacts banking book positions. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or in order to hedge positions held with trading intent.

Our IRRBB risk management framework is designed to ensure that all material sources of IRRBB are identified, measured, managed, and monitored, with robust policies and frameworks in place.

Our IRRBB risks are measured and managed using a combination of economic value and earnings-based measures to ensure that the balance between stabilising earnings and generating value sensitivity is managed appropriately. These metrics measure IRRBB risks across the banking book, to support the overall monitoring against risk appetite, including

- Banking net interest income ('BNII') sensitivity; and
- Economic value of equity ('EVE') sensitivity.

Banking net interest income sensitivity

BNII sensitivity captures the risk to earnings generated from the banking book from changes in market implied interest rates over a 12-month period using static rolling balance sheet assumptions.

The static rolling balance sheet assumption is in place to ensure that IRRBB management actions are focused on risks which can be managed within Treasury. A notable exception to this is related to the price sensitivity of certain interest-bearing non-maturity deposits, where we apply dynamic assumptions to ensure we capture any potential margin widening or compression over the corresponding shock horizon and rate scenario.

As at 31 December 2024, the sensitivity of our earnings to an immediate 100bps parallel shock to interest rates is AED 405m (2023: AED 339m) for an upwards shock and AED -423m (2023: AED -427m) for a downwards shock. This assessment is based on a static balance sheet and no management actions from Treasury, and a 50% pass-on assumption on certain interest-bearing deposits.

Economic value of equity sensitivity

EVE measures the present value of our banking book assets and liabilities excluding equity, based on a run-off balance sheet. EVE sensitivity measures the impact to EVE from a movement in interest rates, including the assumed term profile of non-maturing deposits having adjusted for stability and price sensitivity. It is measured and reported as part of our internal risk metrics and regulatory rules (including the Supervisory Outlier Test) and external Pillar 3 disclosures.

Stress testing and recovery planning

The Bank uses stress testing to evaluate the robustness of plans and risk portfolios. Stress testing also informs the ICAAP. It is an important output used to evaluate how much capital and liquidity we require in setting risk appetite for capital and liquidity risk. It is also used to reevaluate business plans where analysis shows capital, liquidity and/or returns do not meet their target. The Bank maintains a contingency plan which can be enacted in the event of internal or external triggers which threaten the liquidity or funding position. This addresses the actions that management would consider taking in a stress scenario if the position deteriorates and threatens to breach risk appetite and regulatory minimum levels. It sets out a range of appropriate actions which could feasibly be executed in a stressed environment to recover the position.

Risks to capital and liquidity

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

Liquidity and Funding

Overview

At 31 December 2024, the Banks 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 primarily by the Markets Treasury function for the purpose of managing liquidity risk in line with the internal policy. Liquid assets include all unencumbered liquidity assets in compliance with internal and regulatory requirements.

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

Of the total liabilities of AED 134,709 million at 31 December 2024 (31 December 2023: AED 120,061 million), funding from customers amounted to AED 102,998 million at 31 December 2024 (31 December 2023: AED 91,445 million), of which AED 101,834 million at 31 December 2024 (31 December 2023: AED 91,282 million) was contractually repayable within one year.

An analysis of cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date is included in Note 23

Assets available to meet these liabilities, and to cover outstanding commitments to lend AED 61,390 million (31 December 2023: AED 56,567 million), included cash, items in the course of collection and financial investment with maturity of less than one year AED 10,023 million (31 December 2023: AED 17,250 million); loans to banks AED 26,277 million (31 December 2023: AED 19,735 million), including AED 26,018 (31 December 2023: AED 18,945 million) million repayable within one year; and loans to customers AED 49,905 million (31 December 2023: AED 46,351 million), including AED 23,050 million (31 December 2023: AED 21,118 million) repayable within one year. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

Market risk

Market risk management

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

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

Market risk measures

Monitoring and limiting market risk exposures

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

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

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

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

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

Sensitivity analysis

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

Value at risk

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

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

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

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

Trading and non-trading portfolio

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

| | Portfe | olio |
|---|---------|-------------|
| | Trading | Non-trading |
| Risk type | | |
| Foreign exchange and commodity ¹ | VaR | VaR |
| Interest rate | VaR | VaR |
| Credit spread | VaR | VaR |

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

Value at risk of the trading and non-trading portfolio

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

Value at risk

| | 2024 | 2023 |
|-----------|--------|--------|
| | AED000 | AED000 |
| At 31 Dec | 24,384 | 40,190 |
| Average | 37,242 | 49,525 |
| Maximum | 53,924 | 82,725 |
| Minimum | 22,798 | 19,457 |

Trading portfolios

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

Market-making and position-taking is undertaken within MSS. The average VaR for such trading intent activity at 31 December 2024 was AED 15 million (2023: AED 10 million).

VaR by risk type for the trading intent activities

| | Foreign exchange ('FX') | Interest rate | Credit spread | Total |
|-----------------------------|-------------------------|------------------|------------------|--------|
| | AED000 | AED000 | AED000 | AED000 |
| At 31 Dec 2024 ¹ | 4,121 | 9,528 | 3,000 | 11,853 |
| Average | 5,962 | 13,142 | 2,153 | 14,794 |
| Maximum | 18,096 | 24,743 | 3,637 | 25,294 |
| Minimum | 699 | 6,955 | 949 | 8,998 |
| At 31 Dec 2023 | 1,569 | 9,643 | 1,931 | 10,378 |
| Average | 1,410 | 21,338 | 1,596 | 21,314 |
| Maximum | 2,945 | 35,025 | 4,193 | 33,647 |
| Minimum | 446 | 7,283 | 630 | 7,863 |

 $^{1\}quad \hbox{The total VaR is non-additive across risk types due to diversification effects}.$

Non-trading portfolios

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

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

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

VaR by risk type for the non-trading activities

| | Interest rate | Credit spread | Total |
|----------------|------------------|------------------|--------|
| | AED000 | AED000 | AED000 |
| At 31 Dec 2024 | 19,075 | 2,761 | 19,075 |
| Average | 26,993 | 2,257 | 26,993 |
| Maximum | 41,618 | 3,095 | 41,618 |
| Minimum | 18,853 | 1,273 | 18,853 |
| At 31 Dec 2023 | 39,667 | 1,343 | 39,799 |
| Average | 34,192 | 1,751 | 34,506 |
| Maximum | 54,927 | 2,762 | 55,865 |
| Minimum | 16,266 | 1,177 | 16,373 |

Gap risk

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

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

The Bank incurred no material losses (2023: nil) arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2024.

De-peg risk

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

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

Capital management

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

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

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

Further details in respect of the Bank's Capital requirement are set out on page 65.

26 Contingent liabilities, contractual commitments and guarantees

| | 2024 | 2023 |
|---|------------|------------|
| | AED000 | AED000 |
| Guarantees and other contingent liabilities | | |
| Guarantees | 44,042,974 | 38,694,871 |
| Commitments | | _ |
| Documentary credits and short-term trade-related transactions | 2,518,030 | 1,020,536 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 58,871,722 | 55,546,429 |
| At 31 Dec | 61,389,752 | 56,566,965 |

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

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

| | 2024 | 2023 |
|--|-----------|-----------|
| | AED000 | AED000 |
| Guarantees and assets pledged by the bank as collateral security | 6,024,069 | 4,723,046 |
| At 31 Dec | 6,024,069 | 4,723,046 |

Guarantees

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

| | 2024 | ı | 2023 | | |
|---|---|---|---|---|--|
| | | Guarantees by the Bank in | | Guarantees by the Bank in | |
| | Guarantees in favour of third parties | favour of other HSBC Group entities | Guarantees in favour of third parties | favour of other HSBC Group entities | |
| | AED000 | AED000 | AED000 | AED000 | |
| Financial guarantees ¹ | 1,875,077 | 331,167 | 1,536,956 | 328,131 | |
| Performance and other guarantees ² | 36,143,828 | 5,692,902 | 32,434,869 | 4,394,915 | |
| At 31 Dec | 38,018,905 | 6,024,069 | 33,971,825 | 4,723,046 | |

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

Other commitments

In addition to the commitments disclosed above, at 31 December 2024 the Bank had no capital commitments to purchase, within one year, land and building and other fixed assets (2023: nil).

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

27 Finance lease receivables

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

| | 2024 | | | 2023 | | | |
|--|-------------------------------------|-------------------------|---------------|-------------------------------------|-------------------------------|---------------|--|
| | Total future minimum payments | Unearned finance income | Present value | Total future minimum payments | Unearned finance income | Present value | |
| | AED000 | AED000 | AED000 | AED000 | AED000 | AED000 | |
| Lease receivables: | | | | | | | |
| no later than one year | 4,327 | (602) | 3,725 | 15,546 | (3,457) | 12,089 | |
| later than one year and no later than five years | 17,567 | (1,385) | 16,182 | 96,208 | (3,787) | 92,421 | |
| later than five years | - | - | _ | 2,497 | (86) | 2,411 | |
| At 31 Dec | 21,894 | (1,987) | 19,907 | 114,251 | (7,330) | 106,921 | |

28 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2024. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

US Anti-Terrorism Act Related Litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies including HSBC Bank Middle East Limited and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in the Middle East. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act or provided banking services to customers alleged to have connections to terrorism financing. Seven actions, which seek damages for unspecified amounts, remain pending and HSBC's motions to dismiss have been granted in three of these cases. These dismissals are subject to appeals and/or the plaintiffs re-pleading their claims. The four other actions are at an early stage.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

Other litigation

The Bank was named as one of the defendants in a lawsuit filed in the Courts of Dubai in the United Arab Emirates by a Jordanian company. The lawsuit sought damages from the defendants, including the group, in the amount of US\$33m for losses allegedly suffered by the plaintiff arising out of a series of payments made between 2007 and 2009. In June 2024, the Court of Cassation awarded the plaintiff approximately US\$39.7m in damages but later reversed its decision and ordered reconsideration. In November 2024, the Court of Cassation issued a new judgment, dismissing all claims against the group while upholding the liability of the other defendants. As the plaintiff has not filed any further challenge, this matter is now considered closed.

29 Related party transactions

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

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

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

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

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

Transactions, arrangements and agreements including Key Management Personnel

Compensation of Key Management Personnel

| | 2024 | 2023 |
|--------------------------------|--------|--------|
| | AED000 | AED000 |
| Remuneration (wages and bonus) | 31,145 | 27,512 |
| Post-employment benefits | 976 | 2,507 |
| Share-based payments | 15,821 | 12,463 |
| Termination benefits | 3,883 | _ |
| Year ended 31 Dec | 51,825 | 42,482 |

The table below sets out transactions which fall to be disclosed under IAS 24 between the group and the Key Management Personnel of both the bank and its parent company, HSBC Holdings plc, and their connected persons or controlled companies.

Transactions and balances during the year with Key Management Personnel

| | 2024 | | 2023 | |
|---------------------------------------|--|--------------------------------|---|--------------------------------|
| | Highest amounts outstanding during year AED000 | Balance at 31 Dec AED000 | Highest amounts outstanding during year AED000 | Balance at 31 Dec AED000 |
| Key Management Personnel ¹ | | | | |
| Loans | 17,557 | 16,094 | 16,554 | 18,587 |
| Deposits | 28,823 | 10,910 | 4,866 | 14,839 |

¹ Includes Key Management Personnel and entities that are controlled or jointly controlled by Key Management Personnel.

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

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

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

| | 2024 | 2024 | | |
|---|---------------------------------|----------------------|------------------------------------|----------------------|
| | Highest balance during the year | Balance at 31 Dec | Highest balance during the year | Balance at 31 Dec |
| | AED000 | AED000 | AED000 | AED000 |
| Assets | | | | |
| Prepayments, accrued income and other assets | 1,133 | 190 | 3,041 | 1,803 |
| Liabilities | | | | |
| Accruals, deferred income and other liabilities | 38,983 | 987 | 38,866 | 1,664 |

| | For the year ended 31 Dec 2024 | For the year ended 31 Dec 2023 |
|-------------------------------------|--------------------------------------|--------------------------------------|
| | AED000 | AED000 |
| Income statement | | |
| Other operating income | 328 | 7,778 |
| General and administrative expenses | 9,458 | 10,497 |

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

| | 2024 | 2024 | | |
|---|---------------------------------|----------------------|------------------------------------|----------------------|
| | Highest balance during the year | Balance at 31 Dec | Highest balance during the year | Balance at 31 Dec |
| | AED000 | AED000 | AED000 | AED000 |
| Assets | | | | |
| Derivatives | 3,831,897 | 2,799,997 | 5,786,272 | 3,757,720 |
| Loans and advances to banks (including reverse repos) | 14,463,766 | 12,409,570 | 12,164,093 | 10,085,075 |
| Loans and advances to customers | 2,268 | 420 | 1,184 | 303 |
| Prepayments, accrued income and other assets | 1,571,035 | 471,294 | 1,399,206 | 483,917 |
| Liabilities | | | | |
| Deposits by banks | 3,319,978 | 951,379 | 17,134,392 | 7,325,375 |
| Customer accounts | 188,592 | 123,098 | 369,289 | 151,905 |
| Financial liabilities designated at fair value | 3,395,918 | 1,713,532 | 1,757,154 | 1,326,205 |
| Derivatives | 2,843,353 | 2,036,544 | 4,567,296 | 2,574,032 |
| Other liabilities | 2,891,104 | 997,922 | 1,710,863 | 1,308,643 |
| Off-balance sheet | | | | |
| Guarantees | 6,024,069 | 6,024,069 | 4,723,046 | 4,723,046 |

| | For the year ended 31 Dec 2024 | For the year ended 31 Dec 2023 |
|-------------------------------------|--------------------------------------|--------------------------------------|
| | AED000 | AED000 |
| Income Statement | | |
| Interest income | 620,402 | 389,574 |
| Interest expense | 584,335 | 611,188 |
| Fee income | 197,895 | 179,632 |
| Fee expense | 142,783 | 81,608 |
| Other operating income | 382,517 | 359,622 |
| General and administrative expenses | 987,497 | 911,082 |

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

Transactions with HSBC Bank Middle East Limited and its subsidiaries

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

| | 2024 | | 2023 | 2023 | |
|--|---------------------------------|----------------------|------------------------------------|----------------------|--|
| | Highest balance during the year | Balance at 31 Dec | Highest balance during the year | Balance at 31 Dec | |
| | AED000 | AED000 | AED000 | AED000 | |
| Assets | | | | | |
| Derivatives | 166,153 | 85,612 | 370,198 | 152,490 | |
| Loans and advances to banks | 2,080,228 | 494,808 | 2,040,994 | 1,925,891 | |
| Loans and advances to customers | 2,268 | 420 | 1,184 | 303 | |
| Prepayments, accrued income and other assets | 395,184 | 273,492 | 286,128 | 265,796 | |
| Liabilities | | | | | |
| Deposits by banks | 2,853,792 | 666,638 | 4,680,901 | 300,955 | |
| Customer accounts | 59,601 | 48,480 | 56,872 | 56,872 | |
| Derivatives | 64,031 | 64,031 | 48,922 | 18,652 | |
| Accruals, deferred income and other liabilities | 49,240 | 49,240 | 25,070 | 4,361 | |
| Off-balance sheet | | | | | |
| Guarantees | 233,820 | 172,742 | 228,653 | 228,653 | |
| Documentary credit and short-term trade-related transactions | _ | _ | 477,425 | | |

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

30 Events after the balance sheet date

These accounts were approved by the management on 21 March 2025 and authorised for issue.

Additional information

This section includes information that is required to be disclosed as part of our regulatory reporting obligations or that is relevant to a complete understanding of the Bank's Annual Report and Accounts 2024 and is provided in accordance with certain best practice disclosure principles. In particular, it provides further information on the Bank's current top and emerging risks, liquidity and funding ratios, and capital requirements and structure. It also includes information about how we do business. The information in this section is not audited.

Top and emerging risks

Our current top and emerging risks are as follows:

Externally driven

Geopolitical and Macroeconomic risks

Our operations and portfolios are exposed to risks from political instability, evolving trade policies, and regulatory changes. A recalibration of economic and trade policies is expected post recent election in various geographies including in US, and the uncertainty has increased, widening the distribution of economic risk. Recent ceasefire agreements involving Israel, Hezbollah, and Hamas have helped reduce the risk of escalating regional tensions. However, economic pressures on Iran are expected to persist, leading to continued volatility of oil prices. Disruptions in Red Sea shipping may ease if attacks subside, helping stabilize Egypt's Suez Canal revenues and reducing trade costs along the Asia-Europe corridor. Additionally, global trade and technology tensions are contributing to divergent regulatory standards, creating long-term strategic challenges for multinational businesses. We remain committed to complying with all applicable laws across jurisdictions while managing regulatory complexities. Our approach includes portfolio reviews, stress testing, and scenario analysis to mitigate risks and ensure resilience. Rigorous monitoring at the country level supports the reliability and appropriateness of our risk management strategies.

Environmental, social and governance ('ESG') risks

The group is subject to ESG risks, including in relation to climate change, nature and human rights. These risks have increased owing to the pace and volume of regulatory developments globally, signs of diverging national agendas, increasing frequency of severe weather events, which require careful monitoring, and may impact financial and non-financial risks due to stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial risks, including reputational, legal and regulatory compliance risks. Through our climate risk programme, we made progress on embedding climate considerations throughout our organisation, including through risk policy updates. We also developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis. We will continue to implement our climate risk programme to complete our annual materiality assessment and make changes to our policies, processes and capabilities to better embed climate considerations throughout our organisation.

Financial Crime risk environment

We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity. The financial crime risk environment is heightened due to increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and divergent nature of sanctions, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud. As a result, we will continue to face the possibility of regulatory enforcement, reputational risk and losses due to fraud. A number of Middle East countries have recently been and continue to be subject to a mutual evaluation review by the Financial Action Task Force ('FATF'). We are strengthening and investing in our financial crime, fraud and surveillance controls, to introduce next generation capabilities to protect both customers and the Group.

Evolving regulatory environment risk

The group keeps abreast of the rapidly evolving regulatory compliance and conduct agenda, which currently includes, but is not limited to: ESG matters; operational resilience; how digital and technology changes, including payments, are impacting financial institutions; how we are ensuring good customer outcomes, including addressing customer vulnerabilities; regulatory reporting; and employee compliance. We monitor regulatory developments closely and engage with regulators to help ensure new regulatory requirements are implemented effectively and in a timely way. We have continued to embed our regulatory management systems focused on horizon scanning, regulatory mapping, and regulatory content for our inventory.

Technology and Cyber Security Risk

We recognize the potential for service disruptions or data loss due to technology failures or cybersecurity threats. To address this, we continuously monitor technological advancements and the evolving threat landscape, including geopolitical and macroeconomic factors that may impact third-party risk management. As part of our commitment to resilience, we have a continuous improvement program in place to enhance the stability and security of our technology operations in an increasingly complex cyber environment. We invest in the reliability of our technology systems and critical services, ensuring that third-party providers uphold the same standards. Our approach prioritizes the protection of our customers, affiliates, and counterparties while minimizing service disruptions. By implementing robust business and technical controls, we proactively prevent, detect, manage, and recover from potential risks in a timely manner, aligning with our risk appetite.

Digitisation and technological advance risk

Developments in technology and changes in regulations continue to enable new entrants to the banking industry as well as new products and services offered by competitors. This challenges us to continue to innovate with new digital capabilities and evolve our products, to attract, retain and best serve our customers. Along with opportunities, new technology, including generative Artificial Intelligence, can introduce risks and disruption. We seek to ensure technology developments are managed with appropriate controls and oversight.

Internally driven

Data risk

We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. Ensuring accurate and timely data is essential to effectively serving our customers, maintaining operational resilience, and meeting regulatory requirements. Any inconsistencies or delays may pose challenges in these areas. Through our global data management framework, we proactively monitor the quality, availability and security of data that supports our customers and internal processes. We protect customer data via our data privacy framework, which establishes practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations. We continue to make improvements to our data policies and to our control framework to enhance the end-to-end management of data risk. We continue to modernise our data and analytics infrastructure through investments in Cloud technology, data visualisation, machine learning and artificial intelligence. We educate our employees on data risk and data management and have delivered global mandatory training on the importance of protecting data and managing data appropriately.

Risks arising from the receipt of services from third parties

We procure goods and services from a range of third parties. Due to the current macroeconomic and geopolitical climate, the risk of service disruption in our supply chain remains heightened. We continue to strengthen our controls, oversight and risk management policies and processes to select and manage third parties, including our third parties' own supply chains, particularly for key activities that could affect our operational resilience.

Change execution risk

Delivering change effectively is critical to achieving our strategy and enables us to meet rapidly evolving customer and stakeholder needs. We deliver complex change in line with established risk management processes, prioritising sustainable outcomes and understanding the associated risks. We focus on meeting industry and regulatory expectations and fulfilling our obligations to customers and clients and the marketplace we operate in.

Model Risk

We use models in both financial and nonfinancial contexts, as well as in a range of business applications. Evolving regulatory requirements are driving material changes to the way model risk is managed across the banking industry, with a particular focus on capital models. New technologies, including Artificial intelligence ('Al') and generative Al, are driving a need for enhanced model risk controls. We continue to enhance our model risk framework in response to changes in regulation and external factors. Al and machine learning models remain a key focus. Progress has been made in enhancing governance activity in this area with particular focus on generative Al due to the pace of technological change and regulatory and wider interest in adoption and usage.

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

Our businesses, functions and countries are exposed to risks associated with employee retention and talent availability, changing skills requirements of our workforce, increasing our workforce nationalization requirements and compliance with employment laws and regulations. Attrition across the Group remains stable, but failure to manage these risks may impact the delivery of our strategic objectives or lead to regulatory sanctions or legal claims, and the risks are heightened during the current period of fundamental organizational change. We continue to invest in recruitment and retention of local nationals. Our Future Skills curriculum helps provide critical skills that will enable employees and HSBC to be successful in the future. We develop succession plans for key management roles, with actions agreed and reviewed on a regular basis by the Board.

Liquidity and Funding Ratios

Liquidity coverage ratio ('LCR')

LCR

| | 2024 | 2023 |
|-------------|------|------|
| | % | % |
| 31 December | 261 | 224 |

Net stable funding ratio ('NSFR')

NSFR

| | 2024 | 2023 |
|-------------|------|------|
| | % | % |
| 31 December | 148 | 150 |

Capital requirement

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

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

The Bank's regulatory Capital Adequacy Ratio ('CAR') is set by the CBUAE at a minimum level of 13.00% (2023: 13.00%), including capital conservation buffer ('CCB'). Additionally, the Bank is required to maintain a countercyclical buffer ('CCyB') solely by Common Equity Tier 1 capital, up to a maximum of 2.5%.

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

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

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

Capital structure at 31 December

| | 2024 | 2023 |
|-----------------------------------|------------|------------|
| | AED000 | AED000 |
| Composition of regulatory capital | | |
| Common Equity Tier 1 capital | 15,971,920 | 14,848,371 |
| Tier 2 capital | 923,240 | 869,571 |
| Total regulatory capital | 16,895,160 | 15,717,942 |
| Risk-weighted assets | | |
| Credit and counterparty risk | 73,859,198 | 69,565,699 |
| Market risk | 7,036,914 | 8,270,015 |
| Operational risk | 11,990,706 | 10,082,730 |
| Total | 92,886,818 | 87,918,444 |
| Common Equity Tier 1 ratio (%) | 17.20 | 16.89 |
| Total Capital Ratio (%) | 18.19 | 17.88 |

Movement of non-distributable impairment reserves – general at 31 December

| | 2024 | 2023 |
|--|-----------|-----------|
| | AED000 | AED000 |
| Minimum provision for stage 1 & 2 as per CBUAE requirement | 1,107,888 | 1,043,485 |
| Less: Stage 1 & 2 impairment provision taken against income | 214,586 | 265,194 |
| Shortfall in stage 1 & 2 provision to meet minimum CBUAE requirement | 893,302 | 778,291 |
| Balance of Impairment reserve – General as at 1 January | 778,291 | 857,744 |
| Adjustment: Non-distributable reserve during the year (Impairment reserve - General) | 115,011 | (79,453) |
| Balance of Impairment reserve – General as at 31 December | 893,302 | 778,291 |

Per the new credit risk management standards ('CRMS') issued by the CBUAE, Banks must ensure that the total provision corresponding to all Stage 1 and Stage 2 exposures is not less than 1.50% of the Credit Risk Weighted Assets as computed under the CBUAE capital regulations. Where the collective provisions held are lower, the shortfall may be held in a dedicated non-distributable balance sheet reserve called 'impairment reserve-general'. The amount held in the impairment reserve-general must be deducted from the capital base (Tier 1 capital for Banks) when computing the regulatory capital. The calculation process, methodology and results for provisions as at 31 December 2024 have been reviewed by the UAE CRO, in addition to relevant Risk Stewards. The provision results have been presented at relevant governance forums and align with the Article 9 of the Credit Risk Management Regulation and accompanying Standards, Circular No. 3/2024 dated 25 July 2024.

Corporate governance report

Contents

66 1 Overview

66 2 Organisational and governance structure

66 3 The UAE Executive Committee

68 4 UAE Executive Committee

69 5 Remuneration

70 6 Assurance statement by the management

1 Overview

HSBC Bank Middle East Limited ('HBME') is a part of HSBC Group, lead regulator being the Dubai Financial Services Authority ('DFSA'), and has a number of branches including the UAE Branch, regulated by the Central Bank of the UAE ('CBUAE') as well as by the Securities and Commodities Authority ('SCA') (for specified regulated activities).

HBME has a Regional Executive Committee ('HBME Regional EXCO') to support Regional Chief Executive Officer, Middle East, North Africa and Türkiye ('MENAT').

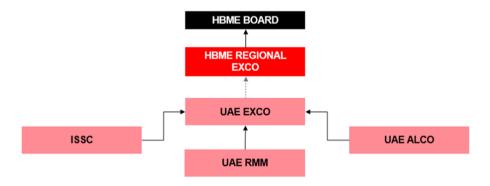
The HBME UAE Branch has its own Executive Committee ('UAE EXCO'), established as the equivalent local governance body to fulfil expectations of the UAE Corporate Governance Circular 83/2019 ('Circular 83/2019').

The corporate governance report provides details on the membership, roles and responsibilities of the UAE EXCO, and the UAE EXCO committees, and outlines key aspects of our approach to corporate governance. The Bank's Corporate Governance Framework and other supporting policies are designed to ensure that the Bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance.

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

2 Organisational and governance structure

The Bank's organisational and governance structure as at 31 December 2024 is provided below:



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

3 The UAE Executive Committee

The UAE EXCO is mainly responsible for the exercise of all of the powers, authorities and discretions of a Board so far as they concern the management, operations and day-to-day running of the Bank. However, HBME Board remains responsible to ensure effective control over HBME's entire business, to institute robust corporate governance policies and processes, and to approve and oversee implementation of appropriate risk governance framework. Matters specifically reserved for the HBME Board approval are including but not limited to approval of the Bank's strategy and annual report, appointment of the UAE Chief Executive Officer, all material HR policies and procedures and changes to any key policies and procedures relating to the monitoring and exercising control over operations including internal audit, risk and compliance.

In exceptional cases, where the UAE EXCO is unable to obtain consensus and the decision needs to be taken on the basis of majority; the matter is escalated for approval to the appropriate higher level governance committee/meeting.

The UAE EXCO aims to promote long-term success, contribute sustainable value to the HSBC Group and promote a culture of openness and debate. The UAE EXCO is comprised of diverse and high-caliber individuals with experience globally and in the Group's key markets.

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

UAE Chief Executive Officer, supported by the UAE EXCO, is responsible among other matters for promoting the Bank's long-term success and delivering sustainable value to the holding company, setting the Bank's risk appetite and monitoring the risk profile, and managing capital and operating plans for achieving strategic objectives. The UAE EXCO also demonstrates ongoing compliance with all relevant regulations issued by the CBUAE, annual review and changes to the Bank's Corporate Governance Framework and managing any change required by the regulation or strategic direction. Furthermore, the UAE EXCO strengthens decision-making by ensuring collective input to decisions whilst also supporting individuals in discharging their responsibilities; shapes the strategic direction of the Bank's business including Islamic finance; identifies enablers and any relevant functional support required; and drives execution of associated plans in fulfilment of Financial Resourcing Plans and other country strategic objectives.

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

Composition of the UAE EXCO

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

- Chief Executive Officer, UAE Chair
- Chief Operating Officer, UAE
- Chief Financial Officer, UAE
- Chief Risk Officer, UAE
- Head of Commercial Banking, UAE
- Head of Wealth and Personal Banking, UAE
- Head of Global Banking, UAE
- Head of Markets and Security Services, UAE
- Chief Compliance Officer, UAE
- General Counsel, UAE and MENAT
- Chief Information Officer, UAE
- Head of Human Resources, UAE

Above list of EXCO members does not include standing attendees.

At 31 December 2024, the EXCO had 33% female EXCO representation, with 4 female EXCO members out of 12.

EXCO attendance in 2024

The table below sets out the attendance at UAE EXCO meetings in 2024:

| Membership | | Meeting attendance in 2024 |
|-------------------------------|--|----------------------------|
| Mohammed Al Marzouqi | Chief Executive Officer, UAE | 10/11 |
| Yan Bechet | Chief Operating Officer, UAE | 2/2 |
| Ibrahim Hayatuddini | Chief Financial Officer, UAE | 9/11 |
| Anthony Wright | Chief Risk Officer, UAE | 3/3 |
| Richard Van Der Meer | Head of Commercial Banking, UAE | 8/11 |
| Dinesh Sharma ¹ | Head of Wealth and Personal Banking, UAE and MENAT | 6/6 |
| Ayman Kolthoum | Head of Markets and Securities Services, UAE | 7/9 |
| Shaikha Al Marri | Head of Global Banking, UAE | 3/3 |
| Bassant Khalil (interim as of | | |
| 31st December 2024) | Chief Compliance Officer, UAE | 3/3 |
| Buthaina Binfahad | Chief Information Officer, UAE | 10/11 |
| Justine D Jones | General Counsel, UAE and MENAT | 11/11 |
| Moustafa Raouf | Head of Human Resources, UAE | 11/11 |

¹ Ranojoy Dutta and Najeeb Busheri represented Dinesh Sharma in all meetings.

During the year, the following members moved out of the EXCO:

| Membership | | Meeting attendance in 2024 |
|------------------|---|----------------------------|
| Simon Calder | Deputy Chief Executive Officer & Chief Operating Officer, UAE | 8/9 |
| Reem Al Banna | Chief Risk Officer, UAE | 5/8 |
| Daniel Robinson | Head of Wealth and Personal Banking, UAE | 5/8 |
| Nabeel Albloushi | Managing Director, Head of Markets, MENAT, CEO HMES | 0/2 |
| Julian Wentzel | Managing Director, Head of Global Banking, MENAT | 5/8 |
| Mohammed Dawood | Head of Islamic Finance | 4/5 |
| Sarah Delbecq | Chief Compliance Officer, UAE | 7/8 |

Other Committees

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

Risk Management Meeting ('UAE RMM')

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

The UAE CRO has been granted authority and accountability by the UAE Chief Executive Officer to take decisions related to matters considered at the UAE RMM, except where decision-making authority is the responsibility of another member of the UAE EXCO (e.g., finance-related decisions taken by the UAE CFO). The UAE RMM consists of Anthony Wright (Chief Risk Officer, UAE), Mohammed Al Marzouqi (Chief Executive Officer, UAE), Yan Bechet (Chief Operating Officer, UAE) and other senior executives of the Bank most of whom are members of the Executive Committee. The UAE RMM was held nine times in 2024.

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

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

The UAE ALCO consists of Ibrahim Hayatuddini (Chief Financial Officer, UAE), Mohammed Al Marzouqi (Chief Executive Officer, UAE), Anthony Wright (Chief Risk Officer, UAE), Rajesh Deshmane (Treasurer, MENAT), Heads of Businesses, and other senior executives of the Bank, of whom are members of the UAE EXCO. The Committee met six times in 2024.

Internal Shariah Supervision Committee ('ISSC')

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

The ISSC consists of Dr Salim Ali Salim Al-Ali (the chairman of the ISSC), Mohamed Ali Ibrahim Elgari Bineid (the deputy chairman of the ISSC), Dr.Engku Rabiah Adawiah (Member), Dr. Mousa Adam Eisa (Member) and Sheikh Tariq Saeed Bujasaim (Member-Trainee). The ISSC met four times in 2024.

4 UAE EXCO

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

Mohammed Al Marzougi

Chief Executive Officer, UAE

Skills and experience: Mohammed has been appointed as HSBC UAE CEO in May 2023, and joined the MENAT Executive Committee regional leadership team. Mohammed is a career HSBC banker and senior leader whose wide experience since joining the Bank in the UAE in 2002 spans retail, finance, and commercial and investment banking. It encompasses roles as regional leadership positions in Commercial Banking and, most recently, Head of Global Banking UAE, a role to which Mohammed was appointed in 2021 and in which he has helped strengthen the Bank's strategic relationships across the Emirates. Mohammed holds a Bachelor Degree in Accounting from Higher Colleges of Technology in Dubai. He also completed H.H. Sheikh Mohammed Bin Rashid Leadership program for future leaders and is a Certified Management Accountant.

Yan Bechet

Chief Operating Officer, UAE

Skills and experience: Yan held senior management roles in the banking sector internationally with diverse experience in various markets across Europe and Middle East predominantly in corporate banking. His previous roles involved strategy design and implementation, large scale Group change programmes and digital implementation. Yan's previous roles include being the Deputy Head of Commercial banking in UAE, and Chief Operating Officer in Egypt. Yan graduated with an MSc in Financial Management & Control from the Aston University (Birmingham, UK) and holds a Masters in International Finance in France from Ecole Superieure de Commerce Dijon, France, as well as graduate from Institut des Techniques Bancaires (Paris, France).

Dinesh Sharma

Regional Head of Wealth and Personal Banking, UAE and MENAT

Skills and experience: Dinesh is a seasoned business leader in consumer banking and risk management with over 30 years of experience across Asia, Europe, Middle East and North Africa. Before joining HSBC, Dinesh was the Regional Head of Wealth and Personal Banking for Middle East & North Africa for Citi bank for 6 years. Prior to that, Dinesh served as Chief Risk Officer for Wealth & Personal Banking for Citi bank, EMEA based out of London. Dinesh holds a bachelors' in Mathematical Statistics and a Masters' degree in Business Administration from University of Delhi.

Ayman Kolthoum

Head of Markets & Security Services, UAE
Skills and experience: Ayman has over 29 years of
experience in Banking and Markets, worked in HSBC
offices including London, UAE and Qatar. He has held
several senior executive positions over a span of 28
years at HSBC and the last position being the
Regional Head of Markets and Security Services Sites
in MENAT region before he was appointed as Head of
Markets and Security Services UAE in July 2024.
Ayman holds a bachelor's degree in business
administration, Banking and Finance from Emirates
University, Al Ain.

Richard Van Der Meer

Head of Commercial Banking, UAE

Skills and experience: Richard has over 21 years of experience in the banking industry with HSBC internationally where he held multiple senior roles across Europe, Middle East, USA and Asia. Richard holds a Bachelors's Degree in Commerce-Economics and Business Studies from the University of Edinburgh.

Ibrahim Hayatuddini

Chief Financial Officer UAE, and MENAT Head of Business Advisory & Insight

Skills and experience: Ibrahim has over 16 years of experience in the financial services sector with senior roles in the UK and Middle East. His expertise lies in supporting businesses through times of change and stress in highly complex environments, with high regulatory scrutiny and investor focus. Ibrahim is a Chartered Certified Accountant and holds a B.Sc. in Financial Economics from the University of Essex. He also holds a certificate in Fintech from the University of Oxford's Said Business School.

Anthony W Wright

Chief Risk Officer, UAE

Skills and experience: Anthony Wright has over 35 years of experience in banking and financial services having worked in 9 countries, with 11 years in front line roles and 24 years in a wide range of risk management related roles. Anthony has held a number of senior roles in the UAE, the UK and Turkive.

Anthony holds a Bachelors degree and a Masters degree in Economics from Cambridge University.

Anthony is also a qualified Associate of the Chartered Institute of Bankers

Bassant Khalil

Chief Compliance Officer, UAE

Skills and experience: Bassant Khalil has over 20 years of experience in the banking and financial services where she held multiple senior roles with international financial institutions. Prior to her current position she was the Regional Head of the Wealth and Personal Banking for the Compliance function. Her scope of coverage spans multiple compliance disciplines including Regulatory Conduct, Financial Crime and Fraud. She also held senior roles throughout her 17 years of working for HSBC in UAE including Regional Chief Operations Officer of WPB and Regional Deputy Head of Strategy & Planning. Bassant holds a degree in Business Management from the American University in Cairo – Egypt.

Moustafa Raouf

Country Head of HR, UAE

Skills and experience: Moustafa has over 16 years of experience in HR. He joined HSBC in 2008 and worked in different areas of HR including payroll and government relations and became country head of Performance and Rewards in 2012. He then moved to GSC Egypt and took over the role of Head of HR in HSBC Bank Egypt and later became Interim Head of HR UAE in September 2023. Starting February 2024 he took on the role for the UAE Head of HR and Emiratization. Moustafa has a deep knowledge within the HR functions and very strong on transformation and engagement. He holds a Master's Degree (MBA) in Finance from Arab Academy for Science & Technology ('AAST').

Buthaina Bin Fahad

Chief Information Office, UAE

Skills and experience: A dynamic technology leader with over 20 years of experience, Buthaina specializes in driving digital business transformations and innovative technology solutions. Buthaina joined HSBC in October 2022 as the Chief Information Officer UAE. Buthaina holds a Master's degree in Information Systems Management from the Higher Colleges of Technology. Moreover, she completed multiple programs from Harvard University through Mohammed Bin Rashid School of Government, and recently completed Oxford Program in Strategic Leadership in the Era of Disruption. She also excels in strategic planning, project management, and team management.

Shaikha AlMarri

Head of Global Banking, UAE

Skills and experience: Shaikha has over 17 years of experience in the financial services industry. She has joined HSBC in 2014 as an Associate Director – Coverage, Global Banking before she became Director – Coverage, Global Banking in March 2018. In March 2023 Shaikha became Managing Director, Head of Coverage, Dubai, Global Banking. Shaikha was appointed as the Head of Global banking coverage for the UAE in August 2024. Shaikha holds Master of Finance (MFin) from Judge Business School, University of Cambridge, UK and BSc in Business from Zayed University, Dubai.

Justine Jones

Regional General Counsel, MENAT & UAE Skills and experience: Justine is an English qualified solicitor but has extensive UAE legal experience, having practiced in the Middle East for the last 15 years. Justine studied Law with European Law at Nottingham University in the UK and completed her Legal Practice at Nottingham Law School. Justine started her legal career in private practice at Linklaters LLP in London, specializing in structured finance and securitization. In 2008, Justine relocated to Dubai with Linklaters where she worked until 2015 when she joined HSBC. She joined HSBC as a Senior Legal Counsel supporting the Debt Capital Markets business across the region, then became Regional Head of Global Banking and Markets Legal for MENAT in 2016, and in 2018, Justine took on a wider role as Regional Head of both the Global Banking and Markets and Commercial Banking businesses for MENAT. Justine was appointed as General Counsel for the UAE and as Regional General Counsel, MENAT in July 2022.

Appointment process of the UAE EXCO Members

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

The nomination committee consists of Mohammed Al Marzouqi (Chief Executive Officer, UAE), Yan Bechet (Chief Operating Officer, UAE), Moustafa Raouf (Country Head of Human Resources, UAE) and Anthony W Wright (Chief Risk Officer, UAE).

5 Remuneration

The Bank's approach to remuneration is underpinned by HSBC Group's reward strategy and proposition. 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.

Our approach to workforce remuneration

Total compensation, which comprises fixed and variable pay, with variable pay differentiated by performance and demonstration of value-aligned behaviours. Some of the key features of our remuneration framework are:

- Fixed pay: To attract and retain employees with market competitive pay for the role, skills and experience required.
- Benefits: To support the physical, mental and financial health of a diverse workforce in accordance with local market practice.
- Annual incentive: To incentivise and reward performance based on annual financial and non-financial measures consistent with the mediumto long-term strategy, stakeholder interests and values-aligned behaviours.
- Deferral: To align employee interests with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.

Alignment between Risk and Reward

Our remuneration practices promote sound and effective risk management to support our business objectives and the delivery of our strategy. This is ensured through the consideration of Group performance based on a range of financial, non-financial and contextual factors when determining the variable pay pool. 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.

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

- Group and business unit financial performance, considering 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.

Other factors supporting alignment of risk and reward include, assessment of individual performance with reference to relevant financial and non-financial objectives, assessing remuneration of staff in control functions according to a balanced scorecard of objectives specific to the functional role they undertake, a framework to apply adjustments to variable pay for individuals to reflect detrimental and positive conduct and application of malus and clawback to deferred awards. Identification of Material Risk Takers ('MRT') at the HSBC Group level is in accordance with specific qualitative and quantitative criteria and at the Bank level MRTs are identified in accordance with the CBUAE requirement to ensure compliance with local regulation.

Governance framework and oversight

The Group Remuneration 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. 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. At Bank level, UAE EXCO and HBME Chairman's Committee discharges local governance requirements.

6 Assurance statement by the management

The Bank has enhanced its governance framework to remain aware and implement new regulations and keeps its policies under regular review, particularly in the areas of Corporate Governance, Risk Management, Internal Controls, Compliance, Internal Audit, Financial Reporting, External Audit and Outsourcing.

The Bank has also made further enhancements to our Outsourcing controls around assessments and on-going monitoring of the Bank's most material third-party suppliers. In line with recent regulatory changes, the Bank is actively enhancing our Credit Risk Management standards to ensure compliance and improve credit risk mitigation practices. These ongoing enhancements demonstrate the Bank's commitment to maintaining a robust framework that adapts to the evolving regulatory landscape.

Annual Report of the Internal Shari'ah Supervision Committee of HSBC Bank Middle East Limited, UAE Branch

Issued on: 20 January 2025

To: Shareholders of HSBC Bank Middle East Limited ('the Institution')

After greetings,

Pursuant to the requirements stipulated in the relevant laws, regulations, and standards ('the Regulatory Requirements'), the Internal Shari'ah Supervision Committee ('ISSC') of the Institution presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the Institution for the financial year ending on 31 December 2024 ('Financial Year').

1 Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter (i.e. ISSC Terms of Reference), the responsibilities of the ISSC are stipulated as follows:

- a To undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (collectively referred to as 'Institution's Activities') and issue Shari'ah resolutions in this regard; and
- b To determine Shari'ah parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ('HSA') to ascertain compliance of the Institution with Islamic Shari'ah.

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

2 Shari'ah Standards

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

3 Duties Fulfilled by the ISSC During the Financial Year

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

- a Convening 4 meetings during the year.
- b Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.
- c Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.
- d Supervising through the internal Shari'ah control division or section and internal Shari'ah audit, the Institution's Activities, including supervision of executed transactions and adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
- e Providing guidance to relevant parties in the Institution to rectify (where possible) incidents cited in the reports prepared by internal Shari'ah control division or section, Shari'ah audit and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes.
- f Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.
- g Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'ah.

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

Annual Report of the Internal Shari'ah Supervision Committee of HSBC Bank Middle East Limited, UAE Branch

4 Independence of the ISSC

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

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

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

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

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

| Dr. Salim Ali Al-Ali | Chairman of the ISSC | |
|---------------------------|-----------------------------|------|
| Dr. Mohamed Ali Elgari | Deputy Chairman of the ISSC | u is |
| Dr. Engku Rabiah Adawiyah | Member of the ISSC | J. 3 |
| Dr. Mousa Adam Eisa | Member of the ISSC | 70 |

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