

HSBC Bank Middle East Limited - UAE Operations

Pillar 3 Disclosures at 31 December 2024



HSBC Bank Middle East Limited – UAE Operations Pillar III Disclosures at 31 December 2024

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Introduction

Legal status and principal activities

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

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

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

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

Pillar 3 disclosures and governance

The Basel Committee on Banking Supervision ('Basel') III framework is structured around three 'pillars', with Pillar 1 minimum capital requirements and the Pillar 2 supervisory review process complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel framework and the rules in their jurisdiction, their capital resources, risk exposures and risk management processes, and hence their capital adequacy.

Our Pillar 3 disclosures as at 31 December 2024 comprises of quantitative and qualitative information required. These disclosures are in accordance with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSD/N/2020/4980 and CBUAE CBUAE/BSD/N/2021/5508) published in November 2020 and November 2021 respectively.

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

This document should be read in conjunction with the HSBC Bank Middle East Limited – UAE Operations Financial Statements, which has been published on our website at www.about.hsbc.ae/financial-information.

Comparatives and references

To give insight into movements during the period, we may provide comparative figures and commentary on material variances. The regulatory numbers and ratios presented in this document were accurate as at the date of reporting. Small changes may exist between these numbers and ratios and those submitted in regulatory filings. Where differences are significant, we may restate in subsequent periods. Where disclosures have been enhanced, or are new, we do not generally restate or provide comparatives. Wherever specific rows and columns in the tables prescribed are not applicable or are immaterial to our activities, we omit them and follow the same approach for comparatives.

The table below references where comparatives have been restated or enhanced.

Page ref	Table Reference	Activity
7	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)	Calculation methodology enhanced and prior period disclosures restated
8	Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)	
10	Prudent valuation adjustments (PV1)	Calculation methodology enhanced
19	Breakdown of exposures by geographical areas (CRB)	Geographical areas enhanced and prior period disclosures restated
19	Amounts of impaired loans, related allowances and write-offs, broken down by geographical areas (CRB)	Calculation methodology enhanced and prior period disclosures restated
21	Credit risk mitigation techniques – overview (CR3)	Calculation methodology enhanced and prior period disclosures restated

Applicability of Disclosures

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

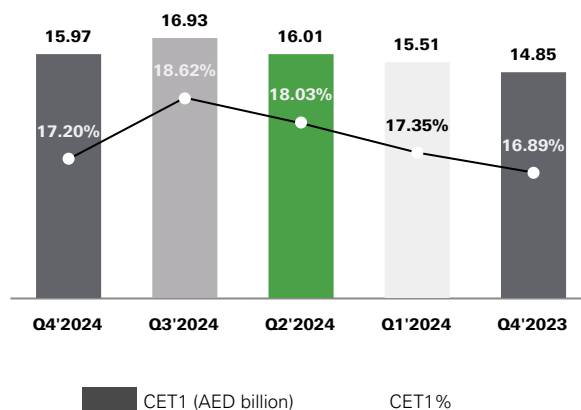
Topic	Table	Information Overview
Composition of capital	CCA	Main features of regulatory capital instruments
Liquidity	LIQ1	Liquidity Coverage Ratio
	LIQ2	Net Stable Funding Ratio
Counterparty credit risk ('CCR')	CCR8	Exposures to central counterparties
	SECA	Qualitative disclosure requirements related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

Highlights

CET1 capital and ratio

Our Common Equity Tier 1 ('CET1') capital was AED 15.97 billion as of 31 December 2024 and our ratio was 17.20%, a reduction by 142bps compared with 30 September 2024 (18.62%). This was mainly driven by proposed dividends, offset by the increase in RWAs amounting to AED 1.96 billion.

CET1 capital and ratio

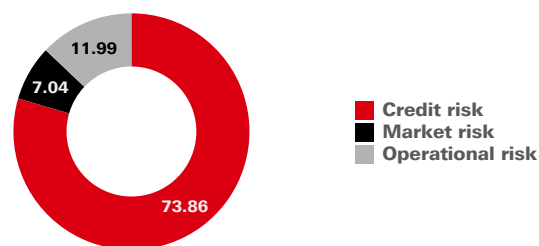


Risk Weighted Assets ('RWAs')

Our RWAs are AED 92.89 billion, an increase of AED 1.97 billion compared with 30 September 2024. This was driven by an AED 1.91 billion increase in operational risk RWAs due to higher revenue and an increase in credit risk RWAs by AED 425 million mainly under the Corporate and Multilateral Development Banks exposure classes.

RWAs by risk type

AED 92.89 billion (3Q23 – AED 90.92 billion)



Leverage

The Bank's leverage ratio was 8.62% at 31 December 2024, above the minimum regulatory requirement of 3%. The reduction is due to the increase in the underlying balance sheet and tier 1 capital.

Leverage

	Q4 2024	Q3 2024	Q4 2023
Leverage ratio (%)	8.62	9.29	8.91

Liquidity

The Bank's Eligible Liquid Asset Ratio ('ELAR') was 23.77% at 31 December 2024, above the minimum regulatory requirement of 10%.

Liquidity

	Q4 2024	Q3 2024	Q4 2023
ELAR (%)	23.77	26.41	22.86
ASRR (%)	64.98	65.84	74.79

The Bank's Advance to Stable Resources Ratio ('ASRR') was 64.98% at 31 December 2024, below the regulatory maximum of 100%.

Overview of risk management, key prudential metrics and RWAs

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

Key Metrics (KM1)

	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2023	
	AED000	AED000	AED000	AED000	AED000	
Available capital (amounts)						
1	Common Equity Tier 1 ('CET1') ¹	15,971,920	16,929,229	16,006,068	15,505,027	14,848,371
1a	Fully loaded ECL accounting model ²	15,971,920	16,929,229	16,006,068	15,505,027	14,848,371
2	Tier 1	15,971,920	16,929,229	16,006,068	15,505,027	14,848,371
2a	Fully loaded ECL accounting model Tier 1 ²	15,971,920	16,929,229	16,006,068	15,505,027	14,848,371
3	Total capital ¹	16,895,160	17,846,815	16,919,986	16,399,185	15,717,942
3a	Fully loaded ECL accounting model total capital ²	16,895,160	17,846,815	16,919,986	16,399,185	15,717,942
Risk-weighted assets (amounts)						
4	Total risk-weighted assets ('RWA') ³	92,886,818	90,925,070	88,765,559	89,377,554	87,918,444
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	17.20	18.62	18.03	17.35	16.89
5a	Fully loaded ECL accounting model CET1 (%) ²	17.20	18.62	18.03	17.35	16.89
6	Tier 1 ratio (%)	17.20	18.62	18.03	17.35	16.89
6a	Fully loaded ECL accounting model Tier 1 ratio (%) ²	17.20	18.62	18.03	17.35	16.89
7	Total capital ratio (%)	18.19	19.63	19.06	18.35	17.88
7a	Fully loaded ECL accounting model total capital ratio (%) ²	18.19	19.63	19.06	18.35	17.88
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (%)	2.50	2.50	2.50	2.50	2.50
9	Countercyclical buffer requirement (%) ⁴	0.05	0.05	0.04	—	—
10	Bank D-SIB additional requirements (%)	—	—	—	—	—
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.55	2.55	2.54	2.50	2.50
12	CET1 available after meeting the bank's minimum capital requirements (%) ⁵	7.69	9.13	8.56	7.85	7.38
Leverage Ratio⁶						
13	Total leverage ratio measure	185,389,140	182,229,244	186,868,572	183,657,209	166,621,558
14	Leverage ratio (%) (row 2/row 13)	8.62	9.29	8.57	8.44	8.91
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13) ¹	8.62	9.29	8.57	8.44	8.91
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.62	9.29	8.57	8.44	8.91
Eligible Liquid Assets Ratio ('ELAR')⁷						
21	Total HQLA	31,890,718	34,507,587	35,612,405	36,984,207	27,426,797
22	Total liabilities	134,190,447	130,680,571	137,312,430	135,492,054	119,994,200
23	Eligible Liquid Assets Ratio ('ELAR') (%)	23.77	26.41	25.94	27.30	22.86
Advances to Stable Resources Ratio ('ASRR')⁷						
24	Total available stable funding	112,190,284	106,211,991	105,749,366	108,225,203	100,233,728
25	Total Advances	72,899,575	69,928,474	71,265,780	70,168,665	74,965,260
26	Advances to Stable Resources Ratio ('ASRR') (%)	64.98	65.84	67.39	64.84	74.79

1 CET1 ratio – Refer to composition of regulatory capital (CC1) (page 10).

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

3 Refer to the overview (OV1) disclosure for further details on RWAs.

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

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

6 Leverage ratio – Refer to leverage ratio common disclosure template (LR2) for further details (page 14).

7 ELAR and ASRR – Refer to Eligible Liquid Assets Ratio ('ELAR') and Advances to Stables Resource Ratio ('ASRR') sections for further details (page 30).

Overview of Risk Management (OVA)

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 ('RMF'), including the key principles and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continuous monitoring and promotes risk awareness and a positive risk culture. It encourages a sound operational and strategic decision-making and escalation process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities, with clear accountabilities.

For further details of our risk management framework, see page 34 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Material risks

Pillar 3 requires that all material risks be disclosed to provide a comprehensive view of a Bank's risk profile. In addition to the disclosure in this document, other information on material risks can be found on page 63 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Culture

HSBC understands the importance of a strong culture. Our culture refers to our shared attitudes, beliefs, values and standards that shape behaviours including those related to risk awareness, risk taking and risk management. It is instrumental in aligning the behaviours of individuals with our attitude to assuming and managing risk, which helps to ensure that our risk profile remains in line with our risk appetite. The fostering of a strong culture is a key responsibility of our senior executives.

Our culture is also reinforced by our approach to remuneration. Individual awards, including those for senior executives, are based on compliance with our values and the achievement of financial and non financial objectives that are aligned to our risk appetite and global strategy.

For further details of our risk culture, see page 34 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Risk governance

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.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. These senior managers are supported by global functions. 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.

For further details of our risk governance and ownership, see page 34 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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.

For further details of our risk appetite, see page 35 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Risk and Compliance

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.

For further details of our risk and compliance functions, see page 35 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Stress testing

The Bank operates a wide-ranging stress testing programme that supports our risk management and capital and liquidity planning and assesses our capital and liquidity strength through an examination of our resilience to external shocks. As well as undertaking regulatory driven stress tests, we conduct our own internal stress tests to understand the nature and level of material risks, quantify the impact of such risks and develop plausible mitigating actions. The outcome of a stress test provides management with key insights into the impact of severely adverse events on the group and provides an indication to regulators of the group's resilience to shocks and financial stability.

For further details of our stress testing programme, see page 35 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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.

For further details of our current top and emerging risks, see page 36 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Risk Weighted Assets ('RWAs')

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

Overview of RWA (OV1)

	RWA	Minimum capital requirements ¹	RWA	Minimum capital requirements ¹
	31 Dec 2024	31 Dec 2024	30 Sep 2024	30 Sep 2024
	AED000	AED000	AED000	AED000
1 credit risk (excluding counterparty credit risk)	68,823,767	7,226,496	69,000,087	7,245,009
2 – of which: standardised approach ('SA')	68,823,767	7,226,496	69,000,087	7,245,009
3 – of which: foundation internal ratings-based ('F-IRB') approach	–	–	–	–
4 – of which: supervisory slotting approach	–	–	–	–
5 – of which: advanced internal ratings-based ('A-IRB') approach	–	–	–	–
6 Counterparty credit risk ('CCR')	4,052,586	425,521	3,454,787	362,753
7 – of which: standardised approach for counterparty credit risk	4,052,586	425,521	3,454,787	362,753
8 – of which: Internal Model Method ('IMM')	–	–	–	–
9 – of which: other CCR	–	–	–	–
10 Credit valuation adjustment ('CVA')	976,084	102,489	951,965	99,956
11 Equity positions under the simple risk weight approach	–	–	–	–
12 Equity investments in funds – look-through approach	–	–	–	–
13 Equity investments in funds – mandate-based approach	–	–	–	–
14 Equity investments in funds – fall-back approach	–	–	–	–
15 Settlement risk	6,761	710	–	–
16 Securitisation exposures in the banking book	–	–	–	–
17 – of which: securitisation internal ratings-based approach ('SEC-IRBA')	–	–	–	–
18 – of which: securitisation external ratings-based approach ('SEC-ERBA')	–	–	–	–
19 – of which: securitisation standardised approach ('SEC-SA')	–	–	–	–
20 Market risk	7,036,914	738,876	7,435,501	780,728
21 – of which: standardised approach ('SA')	7,036,914	738,876	7,435,501	780,728
22 – of which: internal models approach ('IMA')	–	–	–	–
23 Operational risk	11,990,706	1,259,024	10,082,730	1,058,687
24 Amounts below thresholds for deduction (subject to 250% risk weight)	–	–	–	–
25 Floor adjustment	–	–	–	–
26 Total (1+6+10+11+12+13+14+15+16+20+23)	92,886,818	9,753,116	90,925,070	9,547,132

¹ The regulatory minimum capital requirement is calculated at 10.5% of RWAs. This excludes regulatory minimum capital and countercyclical buffer requirement. Please refer to KM1 table for Bank's CCyB rates.

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

Credit risk

Credit risk RWAs increased mainly due to higher exposures under the Corporate and Multilateral Development Banks exposure classes (AED 1.3 billion) partially offset by decrease in Banks exposure class (AED 920 million).

Operational risk

Operational risk RWAs increased mainly due to higher revenues.

Market risk

Market risk RWAs decreased due to lower exposure due to netting offset by increase in higher FX positions in GCC currencies.

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

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

		31 Dec 2024				
		Items subject to:				
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
		AED000	AED000	AED000	AED000	AED000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	153,126,499	113,110,981	—	40,015,518	9,774,850
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	5,715,052	—	—	2,919,179	5,715,052
3	Total net amount under regulatory scope of consolidation	147,411,447	113,110,981	—	37,096,339	4,059,798
4	Off-balance sheet amounts including Derivatives	31,466,713	26,921,969	—	4,544,745	—
5	Difference due to negative MTM (Netted row 3)	2,919,179	—	—	2,919,179	—
6	Differences due to different netting rules, other than those already included in row 2	—	—	—	—	—
7	Differences due to consideration of provisions and Interest in suspense	311,944	311,944	—	—	—
8	Differences due to prudential filters	—	—	—	—	—
9	Exposure amounts considered for regulatory purposes	182,109,283	140,344,894	—	44,560,263	4,059,798
		31 Dec 2023 ¹				
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	137,636,013	101,209,220	—	36,426,793	10,429,748
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	6,926,691	—	—	3,919,936	6,926,691
3	Total net amount under regulatory scope of consolidation	130,709,322	101,209,220	—	32,506,857	3,503,057
4	Off-balance sheet amounts including Derivatives	28,316,595	23,733,384	—	4,583,211	—
5	Difference due to negative MTM (Netted row 3)	3,919,936	—	—	3,919,936	—
6	Differences due to different netting rules, other than those already included in row 2	—	—	—	—	—
7	Differences due to consideration of provisions and Interest in suspense	262,650	262,650	—	—	—
8	Differences due to prudential filters	—	—	—	—	—
9	Exposure amounts considered for regulatory purposes	163,208,503	125,205,254	—	41,010,004	3,503,057

1 We enhanced our calculation processes during 4Q24 and comparatives have been restated.

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

Differences due to credit conversion factors

– Exposure value of off-balance sheet items are calculated after the application of the relevant conversion factors.

Differences due to consideration of provisions

– The carrying values of assets is net of credit risk adjustments (including IIS). The regulatory exposure values reported in LI2 under the credit risk framework includes stage 1 and 2 expected credit losses ('ECL').

Differences due to scope

– There are no differences between HSBC UAE's scope of accounting consolidation and it's scope of regulatory consolidation, as such the columns have been merged in line with Pillar 3 disclosure requirements.

Other differences

– Other differences primarily relate to potential future exposures ('PFE').

Fair values of financial instruments carried at fair value

Fair value is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Some fair value adjustments already reflect valuation uncertainty to some degree. These are market data uncertainty and model uncertainty.

It is recognised that a variety of valuation techniques using stressed assumptions and combined with the range of plausible market parameters at a given point in time may still generate unexpected uncertainty beyond fair value.

■ For further details of fair values of financial instruments, see page 22 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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Prudent valuation adjustments

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

The table below shows the PVA split by risk category for each of the trading book exposure risks.

Prudent valuation adjustments (PV1)

		31 Dec 2024							
		Equity	Interest rates	FX	Credit	Commodities	Total	of which: In the trading book	of which: In the banking book
		AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
1	Closeout uncertainty, of which:	—	23,152	2,092	7,570	—	32,815	19,317	13,499
2	Mid-market value	—	13,200	943	3,620	—	17,764	10,418	7,346
3	Closeout cost	—	9,931	1,149	2,119	—	13,198	7,046	6,152
4	Concentration	—	22	—	1,831	—	1,853	1,853	—
5	Early termination	—	—	—	—	—	—	—	—
6	Model risk	—	—	—	—	—	—	—	—
7	Operational risk	—	2,193	209	617	—	3,018	1,846	1,172
8	Investing and funding costs	—	574	—	—	—	574	574	—
9	Unearned credit spreads	—	2,042	—	—	—	2,042	2,042	—
10	Future administrative costs	—	7,075	4,871	237	—	12,183	10,437	1,746
11	Other	—	—	—	—	—	—	—	—
12	Total adjustment	—	35,036	7,172	8,423	—	50,632	34,215	16,417
		31 Dec 2023							
1	Closeout uncertainty, of which:	—	38,448	1,337	19,540	—	59,325	28,972	30,354
2	Mid-market value	—	27,227	212	16,856	—	44,295	21,557	22,738
3	Closeout cost	—	8,642	1,125	2,684	—	12,451	7,415	5,037
4	Concentration	—	2,579	—	—	—	2,579	—	2,579
5	Early termination	—	—	—	—	—	—	—	—
6	Model risk	—	—	—	—	—	—	—	—
7	Operational risk	—	3,513	135	1,662	—	5,310	2,636	2,674
8	Investing and funding costs	—	31	—	—	—	31	31	—
9	Unearned credit spreads	—	6,991	12	—	—	7,003	7,003	—
10	Future administrative costs	—	327	—	143	—	470	—	470
11	Other	—	—	—	—	—	—	—	—
12	Total adjustment	—	49,310	1,484	21,345	—	72,139	38,642	33,497

Bank does not have any exposure to equities or commodities during 2024 and 2023. The bank enhanced the calculation methodology in line with the HSBC group reporting in 2024.

Composition of capital

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

Composition of regulatory capital (CC1)

	31 Dec 2024 AED000	31 Dec 2023 AED000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation	
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,495,255	4,495,255	Same as (a) from CC2 template
2	Retained earnings	10,027,028	8,912,264	—
3	Accumulated other comprehensive income (and other reserves)	2,184,725	2,194,300	—
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	—	—	—
5	Common share capital issued by third parties (amount allowed in group CET1)	—	—	—
6	Common Equity Tier 1 capital before regulatory deductions	16,707,008	15,601,819	—
Common Equity Tier 1 capital regulatory adjustments				
7	Prudent valuation adjustments	—	—	—
8	Goodwill (net of related tax liability)	—	—	—
9	Other intangibles including mortgage servicing rights (net of related tax liability)	775,306	753,275	—
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	2,210	—	—
11	Cash flow hedge reserve	(37,456)	9,304	—
12	Securitisation gain on sale	—	—	—
13	Gains and losses due to changes in own credit risk on fair valued liabilities	(4,972)	(9,131)	—
14	Defined benefit pension fund net assets	—	—	—
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	—	—	—
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	—	—	—
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	—	—	—
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	—	—	—
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	—	—	—
20	Amount exceeding 15% threshold	—	—	—
21	– of which: significant investments in the common stock of financials	—	—	—
22	– of which: deferred tax assets arising from temporary differences	—	—	—
23	CBUAE specific regulatory adjustments	—	—	—
24	Total regulatory adjustments to Common Equity Tier 1	735,088	753,448	—
25	Common Equity Tier 1 capital (CET1)	15,971,920	14,848,371	—
Additional Tier 1 capital: instruments				
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	—	—	—
27	– of which: classified as equity under applicable accounting standards	—	—	—
28	– of which: classified as liabilities under applicable accounting standards	—	—	—
29	Directly issued capital instruments subject to phase-out from additional Tier 1	—	—	—
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	—	—	—
31	– of which: instruments issued by subsidiaries subject to phase-out	—	—	—
32	Additional Tier 1 capital before regulatory adjustments	15,971,920	14,848,371	—
Additional Tier 1 capital: regulatory adjustments				
33	Investments in own additional Tier 1 instruments	—	—	—
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	—
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	—
36	CBUAE specific regulatory adjustments	—	—	—
37	Total regulatory adjustments to additional Tier 1 capital	—	—	—
38	Additional Tier 1 capital (AT1)	—	—	—
39	Tier 1 capital (T1= CET1 + AT1)	15,971,920	14,848,371	—
Tier 2 capital: instruments and provisions				
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	—	—	—
41	Directly issued capital instruments subject to phase-out from Tier 2	—	—	—
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	—	—	—
43	– of which: instruments issued by subsidiaries subject to phase-out	—	—	—
44	Provisions	923,240	869,571	—

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Composition of regulatory capital (CC1) (continued)

	31 Dec 2024 AED000	31 Dec 2023 AED000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
45 Tier 2 capital before regulatory adjustments	923,240	869,571	—
Tier 2 capital: regulatory adjustments			
46 Investments in own Tier 2 instruments	—	—	—
47 Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	—	—	—
48 Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	—	—	—
49 CBUAE specific regulatory adjustments	—	—	—
50 Total regulatory adjustments to Tier 2 capital	—	—	—
51 Tier 2 capital ('T2')	923,240	869,571	—
52 Total regulatory capital (TC = T1 + T2)	16,895,160	15,717,942	—
53 Total risk-weighted assets	92,886,818	87,918,444	—
Capital ratios and buffers			
54 Common Equity Tier 1 (as a percentage of risk-weighted assets) (%)	17.20	16.89	—
55 Tier 1 (as a percentage of risk-weighted assets) (%)	17.20	16.89	—
56 Total capital (as a percentage of risk-weighted assets) (%)	18.19	17.88	—
57 Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets) (%)	2.55	2.50	—
58 – of which: capital conservation buffer requirement (%)	2.50	2.50	—
59 – of which: bank-specific countercyclical buffer requirement (%) ¹	0.05	—	—
60 – of which: higher loss absorbency requirement (e.g. DSIB) (%)	—	—	—
61 Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement (%)	7.69	7.38	—
The CBUAE Minimum Capital Requirement			
62 Common Equity Tier 1 minimum ratio (%)	7.00	7.00	—
63 Tier 1 minimum ratio (%)	8.50	8.50	—
64 Total capital minimum ratio (%)	10.50	10.50	—
Amounts below the thresholds for deduction (before risk weighting)			
65 Non-significant investments in the capital and other TLAC liabilities of other financial entities	—	—	—
66 Significant investments in common stock of financial entities	—	—	—
67 Mortgage servicing rights (net of related tax liability)	—	—	—
68 Deferred tax assets arising from temporary differences (net of related tax liability)	—	—	—
Applicable caps on the inclusion of provisions in Tier 2			
69 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,107,888	1,043,485	—
70 Cap on inclusion of provisions in Tier 2 under standardised approach	923,240	869,571	—
71 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	—	—	—
72 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	—	—	—
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2024)			
73 Current cap on CET1 instruments subject to phase-out arrangements	—	—	—
74 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	—	—	—
75 Current cap on AT1 instruments subject to phase-out arrangements	—	—	—
76 Amount excluded from AT1 due to cap (excess after redemptions and maturities)	—	—	—
77 Current cap on T2 instruments subject to phase-out arrangements	—	—	—
78 Amount excluded from T2 due to cap (excess after redemptions and maturities)	—	—	—

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

Our CET1 capital ratio increased marginally from 16.89% at 31 December 2023 to 17.20% at 31 December 2024, reflecting a increase in CET1 capital of AED 1.12 billion, partly offset by a increase in RWAs of AED 4.96 billion. The key drivers of the overall increase in our CET1 ratio during the year were:

- current year profit coupled with the capitalisation of prior years profit, post dividend payment.
- higher RWAs mainly driven by organic balance sheet growth.

The table below provides an overview of the differences between the scope of accounting consolidation and the scope of regulatory consolidation and to show the link between the numbers that are used in the composition of capital disclosure template set out in CC1. There are no differences between HSBC UAE's scope of accounting consolidation and its scope of regulatory consolidation.

Reconciliation of regulatory capital to balance sheet (CC2)

	Balance sheet as in financial statements 31 Dec 2024 AED000	Balance sheet as in published financial statements 31 Dec 2023 AED000	Reference to CC1
Assets			
Cash	713,194	897,814	—
Trading assets	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	3,577,132	4,338,858	—
Loans and advances to banks	26,276,807	19,734,923	—
Loans and advances to customers	49,904,946	46,351,320	—
Reverse repurchase agreements – non-trading	29,761,567	25,960,050	—
Financial investments	31,203,765	29,602,340	—
Prepayments, accrued income and other assets ¹	4,752,138	4,209,685	—
Intangible assets	775,306	753,276	—
Deferred tax assets	432,934	412,987	—
Total Assets	153,904,015	138,389,289	
Liabilities			
Deposits from banks	3,714,710	3,597,857	—
Customer accounts	102,997,556	91,445,335	—
Repurchase agreements – non-trading	10,796,349	6,666,813	—
Trading liabilities	2,834,721	3,006,755	—
Financial liabilities designated at fair value	3,145,132	3,891,876	—
Derivatives	2,919,179	3,919,936	—
Accruals, deferred income and other liabilities ¹	6,988,276	6,964,927	—
Current tax liabilities	794,522	500,706	—
Provisions	517,947	66,679	—
Total liabilities	134,708,392	120,060,884	—
Shareholders' equity			
Allocated Capital	4,495,255	4,495,255	(a)
Legal Reserves	2,247,628	2,247,628	—
Other Reserves	789,182	931,524	—
Unremitted Profit	11,663,558	10,653,998	—
Total shareholders' equity	19,195,623	18,328,405	—
Total liabilities and Head Office funds	153,904,015	138,389,289	

1 In 2023 'Items in the course of collection from other banks' (AED123m) 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' (AED676m) are now presented within 'Accruals, deferred income and other liabilities'.

For further details, refer to the notes on the financial statements, page 9-62 in the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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Countercyclical capital buffer

The table below provides an overview of the geographical distribution of private sector credit exposures relevant for the calculation of the countercyclical buffer.

Geographical distribution of credit exposures used in the countercyclical capital buffer (CCyB1)

Geographical breakdown	31 Dec 2024				
	a	b	c	d	e
	Countercyclical capital buffer rate (%)	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate (%) ³	Countercyclical buffer amount
Exposure values		Risk-weighted assets			
United Kingdom	2.00	1,169,650	743,413	0.0246	22,867
Ireland	1.50	964,906	10,087	0.0003	233
Luxembourg	0.50	899,348	325,044	0.0027	2,500
Germany	0.75	455,366	103,976	0.0013	1,199
Cyprus	1.00	324,488	324,285	0.0054	4,988
Korea, Republic Of (South)	1.00	304,742	293,697	0.0049	4,517
France	1.00	121,909	120,848	0.0020	1,859
Netherlands	2.00	116,748	96,507	0.0032	2,969
Hong Kong	1.00	113,089	101,760	0.0017	1,565
Denmark	2.50	104,757	88,594	0.0037	3,406
Australia	1.00	32,033	14,297	0.0002	220
Czech Republic	1.25	1,184	414	—	8
Sweden	2.00	964	338	—	10
Sum¹		4,609,182	2,223,261	0.0499	46,341
Total²		75,094,285	60,394,370		
	30 Jun 2024				
Luxembourg	0.50	2,002,751	218,724	0.0018	1,635
United Kingdom	2.00	1,897,600	929,148	0.0313	27,776
Germany	0.75	546,958	109,016	0.0014	1,222
Netherlands	1.00	304,507	285,643	0.0048	4,269
Cyprus	0.50	202,204	201,996	0.0017	1,510
France	1.00	91,049	89,125	0.0015	1,332
Australia	1.00	36,752	16,009	0.0003	239
Denmark	2.50	27,895	27,303	0.0011	1,020
Ireland	1.50	13,673	17,284	0.0004	388
Sweden	2.00	1,795	628	—	19
Czech Republic	2.00	1,247	437	—	13
Slovakia	1.50	495	173	—	4
Estonia	1.50	293	102	—	2
Sum¹		5,127,220	1,895,588	0.0444	39,429
Total^{2,4}		77,054,455	59,387,374		

1 Sum of private sector credit exposures and related RWAs in countries with a countercyclical buffer rate.

2 Total of private sector credit exposures and related RWA across the world.

3 Bank-specific countercyclical capital buffer rate (%) is rounded to four decimals.

4 CCyB has been disclosed from 30 June 2024.

Leverage ratio

The risk of excessive leverage is managed as part of HSBC UAE risk appetite framework and monitored using the leverage ratio. The table below reconciles the total assets in the financial statements to the leverage ratio exposure measures.

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

		At	
		31 Dec 2024	31 Sep 2024
		AED000	AED000
1	Total consolidated assets as per published financial statements ¹	153,904,015	149,837,368
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	—	—
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	—	—
4	Adjustments for temporary exemption of central bank reserves (if applicable)	—	—
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	—	—
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	—	—
7	Adjustments for eligible cash pooling transactions	—	—
8	Adjustments for derivative financial instruments	1,633,561	1,914,607
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	593,887	701,226
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	31,420,659	31,501,455
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(1,387,701)	(1,326,921)
12	Other adjustments ²	(775,281)	(398,491)
13	Leverage ratio exposure measure	185,389,140	182,229,244

1 HSBC UAE does not publish quarterly financials statements.

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

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

Leverage ratio common disclosure template (LR2)

		At	
		31 Dec 2024	31 Sep 2024
		AED000	AED000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions ('SFTs'), but including collateral) ¹	117,931,247	119,483,444
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	—	—
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions) ²	(107,972)	—
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	—	—
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital) ¹	(3,238,436)	(3,162,549)
6	(Asset amounts deducted in determining Tier 1 capital)	(775,306)	(765,216)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	113,809,534	115,555,679
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,005,338	628,282
9	Add-on amounts for PFE associated with all derivatives transactions	4,313,328	4,385,453
10	(Exempted CCP leg of client-cleared trade exposures)	—	—
11	Adjusted effective notional amount of written credit derivatives	—	—
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—
13	Total derivative exposures (sum of rows 8 to 12)	5,318,666	5,013,735
Securities financing transactions			
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	34,246,395	29,457,149
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
16	CCR exposure for SFT assets	593,887	701,226
17	Agent transaction exposures	—	—
18	Total securities financing transaction exposures (sum of rows 14 to 17)	34,840,282	30,158,375
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	104,440,939	98,964,753
20	(Adjustments for conversion to credit equivalent amounts)	(73,020,281)	(67,463,298)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	—	—
22	Off-balance sheet items (sum of rows 19 to 21)	31,420,659	31,501,455
Capital and total exposures			
23	Tier 1 capital	15,971,920	16,929,229
24	Total exposures (sum of rows 7, 13, 18 and 22)	185,389,140	182,229,244
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	8.62	9.29
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8.62	9.29
26	CBUAE minimum leverage ratio requirement (%)	3.00	3.00
27	Applicable leverage buffers	—	—

1 Specific and general provisions which have reduced Tier 1 capital are reported separately.

2 Cash variation margin has been disclosed from 31 December 2024, comparatives have not been restated.

HSBC Bank Middle East Limited – UAE Operations Pillar III Disclosures at 31 December 2024

Our leverage ratio was 8.62% at 31 December 2024, decreased marginally from 8.29% at 30 September 2024. Leverage exposures increased primarily due to higher Securities Financing Transactions ('SFTs') and derivatives and Other Off-balance sheet exposures during the quarter coupled with decrease in the tier 1 capital. At 31 December 2024, our UAE minimum leverage ratio requirement was 3%.

Credit risk

General qualitative information about credit risk (CRA)

Credit risk management is segregated between Retail (Wealth and Personal Banking) and Wholesale (Global Banking and Commercial Banking) based on the coverage of the business lines.

Retail risk

Credit risk is managed by through the Bank's risk appetite framework. The appetite is articulated and calibrated to set up broader guard rails, in order to ensure the right commercial trade-off between risk and reward. Within the agreed risk appetite framework, various credit strategies are developed for Acquisition, Portfolio Intervention, and Collections capabilities. Retail credit risk at a product level is managed through formulation of lending policies, ongoing monitoring of portfolio performance and collection strategies. The process is overseen via governance, including Risk Management Meeting and the Country credit risk Forum. Enhanced policy intervention and oversight is provided in the times of economic uncertainty and at the advent of related trigger events. Furthermore, credit risk is a key consideration in pricing of the products.

Credit risk management policies and product lending limits are set in alignment with the regulatory requirements, and to ensure new business meets the required profitability hurdle and overall credit risk profile remains within the approved risk Appetite. External credit bureau information, and internal historic loss experiences are factored in for setting the policy parameters. Collateral valuation and collateral management process and guidance are embedded into the credit risk policy. Ongoing portfolio performance is reviewed through tracking and reporting on key risk indicators. At a granular level internal caps and triggers are put in place to meet the credit risk objectives.

The Bank has embedded three line of defence risk governance model to achieve its strategic objectives, while managing the risk within appetite. UAE retail credit risk (second line of defence) functionally operates independently from business (first line of defence). Besides the internal quality monitoring processes within the retail credit risk function, internal Audit (third line of defence) reviews and provides their opinion on the overall control environment periodically. The organisation is set up across three pillars, Namely, global businesses, global functions and operational unit called DBS (Digital Banking Services). These units functionally report into the group Chief Executive Officer, and work collaboratively at a country level. Risk and Compliance is one of the global functions, that work closely with the business. Internal Audit is also one of the global function that collaborates across businesses and functions.

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

Wholesale risk

The credit risk functions within wholesale credit risk management ('WCR') and traded risk are the constituent parts of HSBC UAE risk that support the CRO in overseeing credit risks. The primary duties for wholesale credit risk department comprises undertaking the independent reviews of credit proposals (including concentration risk), reporting and oversight of Wholesale credit risk management disciplines, ownership of credit related policies and systems, portfolio management oversight and reporting of risk matters to senior management as well as regulators periodically.

The credit risk function fulfils an essential role as the independent risk control unit, separate from line of business management, in providing an objective scrutiny of risk rating assessments, credit proposals and other credit risk matters.

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

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

Credit risk exposures are generally measured and managed in different granularities of portfolio, such as customer types, product categories, sectors, risk rating etc. Risk rating systems are designed to assess the default propensity and loss severity associated with distinct customers that are typically managed as individual relationships.

To create a robust control environment, HSBC uses 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. From WCR perspective, this is the lines of business.
- The second line of defence challenges the first line of defense on effective risk management and provides advice and guidance in relation to the risk. This is the credit risk function.
- 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.

WCR leverages the group centralised policies which are common across HSBC, as well as local policies which include local regulatory requirements not captured in the group centralised policies.

WCR policies and limits are established in accordance with relevant regulations as well as risk appetite. This includes but not limited to: credit approval authorities, which define the quantum of approval authority assigned to each individual credit approver (based on experience and seniority), since the group operates credit decisions via individual approval and not by committee; risk concentration limits, which are based on internal caps, risk appetite statement as well as regulatory requirements; provisioning requirements in line with IFRS and relevant regulations.

The WCR function consists of credit approvers, Special Credit Unit ('SCU'), and the Analytics & Portfolio Management ('GRA & PPM') teams. Credit approvers and SCU, report to the Wholesale Chief Credit Officer ('CCO'), whereas Analytics and Portfolio Management reports to the Head of GRA & PPM – both Wholesale CCO and GRA & PPM report to the Regional Chief Risk and Compliance Officer.

Credit approvers assess credit proposals, providing an independent view of the overall credit risk and ultimately a decision on the proposal. SCU manage certain customers with high credit risk and/or already in default to provide focused management and control to assess impairment and maximize recoveries of doubtful debts. GRA & PPM develop credit risk models on performing customers for internal credit risk rating and provisioning purposes, as well as measuring and monitoring concentration risks, owning the local policies and providing portfolio level management insights to manage credit risk.

Relationships between the credit risk management, Risk control, Compliance and Internal audit functions

The Risk and Compliance function's responsibility includes establishing global and local policies including lending guidelines, regulatory guidelines, 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. In addition, within Risk and Compliance, there is a central control team supporting on the overall control environment as well as a specific focus within WCR on control effectiveness as part of its wider risk stewardship responsibilities, this covers both financial and non-financial risks.

Internal Audit collaborates across businesses and functions to validate effective embodiment of the framework, policies and processes, regulatory guidelines and best practices within the businesses and functions in its capacity as third line of defence.

Credit risk reporting

Key credit risks, provisioning level, key concentrations, wider macro-economic developments are reported and discussed with senior management in the regional/country risk governance forums. In addition, periodic credit risk related updates are provided to the Board Risk Committee and Group Management. Beside the risk reporting, forward looking strategy and policy changes are also shared with the executive management.

For further details of credit risk management, see page 36 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Credit quality of assets (CR1)

		31 Dec 2024					
		Gross carrying values of			of which: ECL accounting provisions for credit losses on SA exposures		
		Defaulted exposures (a)	Non-defaulted exposures (b)	Allowances/Impairments (c)	Allocated in regulatory category of Specific	Allocated in regulatory category of General	Net values (a+b-c)
		AED000	AED000	AED000	AED000	AED000	AED000
1	Loans ¹	2,556,829	75,473,180	1,848,256	1,632,445	215,811	76,181,753
2	Debt securities ^{2,4}	—	31,208,363	4,598	—	4,598	31,203,765
3	Off-balance sheet exposures ³	36,884	27,844,980	39,774	18,104	21,670	27,842,090
4	Total	2,593,713	134,526,523	1,892,628	1,650,549	242,079	135,227,608
		31 Dec 2023					
1	Loans ¹	2,882,805	65,455,127	2,251,689	2,023,630	228,059	66,086,243
2	Debt securities ^{2,4}	—	29,603,624	8,789	—	8,789	29,594,835
3	Off-balance sheet exposures ³	129,801	21,318,618	16,837	402	16,435	21,431,582
4	Total	3,012,606	116,377,369	2,277,315	2,024,032	253,283	117,112,660

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

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

3 Off-balance sheet exposures subject to impairment requirements under IFRS 9 only are reported.

4 Memorandum impairment allowance is added back to the fair value of debt instruments measured at fair value through other comprehensive income to arrive at the gross carrying value.

HSBC Bank Middle East Limited – UAE Operations Pillar III Disclosures at 31 December 2024

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

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

		At	
		31 Dec 2024	31 Dec 2023
		AED000	AED000
1	Defaulted loans and debt securities at the end of the previous reporting period	2,882,805	3,626,945
2	Loans and debt securities that have defaulted since the last reporting period	507,680	686,283
3	Returned to non-default status	(39,134)	(81,082)
4	Amounts written off	(610,823)	(912,030)
5	Other changes ¹	(183,699)	(437,311)
6	Defaulted loans and debt securities at the end of the reporting period	2,556,829	2,882,805

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

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

Impairment of amortised cost and FVOCI financial assets Credit quality of assets

Our credit risk is diversified across a number of asset classes and geographies with a credit quality profile mainly concentrated in the higher quality bands.

The IFRS 9 stages have the following characteristics:

- **Stage 1:** These financial assets are unimpaired and without a significant increase in credit risk. A 12-month allowance for ECL is recognised.
- **Stage 2:** A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised.
- **Stage 3:** There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.
- **Purchased or originated credit-impaired ('POCI')**: Financial assets purchased or originated at a deep discount are seen to reflect incurred credit losses and a lifetime ECL is recognised.

These exposures are included in stage 3 in the Changes in stock of defaulted loans and debt securities (CR2).

For further details of impairment of amortised cost and FVOCI financial assets, see page 13 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

For further details of credit quality of financial instruments, see page 46 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Breakdown of exposures by residual maturity

Exposures by residual maturity	31 Dec 2024										
	On Balance sheet exposure							Off Balance sheet exposure			
	Trading assets	Derivatives	Cash	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements non-trading	Financial investments	Other assets ¹	Loan and other credit-related commitments	Financial guarantees and similar contracts	Total
AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Due within 3 months	5,624,844	3,313,047	713,194	22,905,113	13,990,331	19,945,806	5,427,489	3,274,384	61,389,752	44,042,974	180,626,934
Due between 3 and 12 months	187,049	31,757	—	3,112,892	9,059,587	835,375	3,846,484	465,512	—	—	17,538,656
Due between 1 and 5 years	655,661	212,411	—	258,802	18,547,366	8,980,386	20,580,099	18,518	—	—	49,253,243
Due after 5 years	—	19,917	—	—	8,307,662	—	1,349,693	2,240,636	—	—	11,917,908
Total	6,467,554	3,577,132	713,194	26,276,807	49,904,946	29,761,567	31,203,765	5,999,050	61,389,752	44,042,974	259,336,741

31 Dec 2023											
Due within 3 months	2,228,292	4,095,987	897,814	16,882,629	13,409,986	11,844,342	3,446,129	2,994,400	56,566,965	38,694,871	151,061,415
Due between 3 and 12 months	2,437,712	10,564	—	2,062,182	7,708,293	7,834,011	12,783,712	218,121	—	—	33,054,595
Due between 1 and 5 years	1,424,886	231,980	—	790,112	17,555,631	6,281,697	12,947,172	39,887	—	—	39,271,365
Due after 5 years	—	327	—	—	7,677,410	—	425,327	2,160,686	—	—	10,263,750
Total	6,090,890	4,338,858	897,814	19,734,923	46,351,320	25,960,050	29,602,340	5,413,094	56,566,965	38,694,871	233,651,125

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

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

Breakdown of exposures by industry

Exposures by industry	31 Dec 2024										
	On Balance sheet exposure							Off Balance sheet exposure			
	Trading assets	Derivatives	Cash	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements non-trading	Financial investments	Other assets	Loan and other credit-related commitments	Financial guarantees and similar contracts	Total
Banks	4,704,119	3,452,515	713,194	26,276,807	—	18,595,963	11,065,347	847,185	1,562,455	9,211,373	76,428,958
Agriculture and Allied Activities	—	—	—	—	14,803	—	—	11,709	97,482	59,984	183,749
Construction	—	4,316	—	—	1,755,250	—	—	127,538	4,993,388	7,363,981	14,212,334
Electricity, Gas and Water	34,789	2	—	—	2,360,087	—	55,790	18,358	3,135,165	1,347,951	6,947,439
Government	584,187	1,644	—	—	403,609	—	19,667,702	126,316	797,980	19,309	21,599,042
Manufacturing	—	1,958	—	—	8,473,928	—	—	556,455	8,590,562	9,867,460	27,291,884
Mining & Quarrying	108,331	—	—	—	814,881	—	—	4,931	2,238,226	38,280	3,202,260
Non-Bank Financial Institutions	214,635	26,348	—	—	498,286	10,765,603	—	113,731	398,161	604,532	12,601,384
Real Estate	—	1,540	—	—	3,244,985	—	—	9,498	636,755	158,113	3,968,469
Trade	6,458	34,293	—	—	8,626,550	—	—	1,205,546	18,890,435	6,263,884	34,477,006
Transport, Storage & Communication	5,127	4,521	—	—	3,251,360	—	—	55,675	4,345,323	3,632,802	10,876,495
Other Services	809,908	49,995	—	—	8,093,556	400,001	414,926	490,975	7,360,334	5,474,004	24,404,150
Individuals & HNIs	—	—	—	—	12,367,651	—	—	160,822	8,343,486	1,301	20,873,260
Others ¹	—	—	—	—	—	—	—	2,270,311	—	—	2,270,311
Total	6,467,554	3,577,132	713,194	26,276,807	49,904,946	29,761,567	31,203,765	5,999,050	61,389,752	44,042,974	259,336,741

31 Dec 2023											
Banks	4,612,393	4,173,250	897,814	19,734,923	—	17,737,288	14,395,225	542,885	214,186	7,596,406	69,904,370
Agriculture and Allied Activities	—	—	—	—	6,133	—	—	615	12,977	46,243	65,968
Construction	—	4,122	—	—	1,859,288	—	—	113,530	4,405,227	7,962,443	14,344,610
Electricity, Gas and Water	39,690	30,216	—	—	2,238,030	—	—	18,929	1,826,434	1,962,303	6,115,602
Government	525,794	1,133	—	—	164,585	—	14,400,136	126,888	1,072,417	6,751	16,297,704
Manufacturing	—	5,053	—	—	8,089,270	—	—	366,216	8,988,833	8,355,668	25,805,040
Mining & Quarrying	22,258	—	—	—	294,084	—	—	1,715	3,469,616	30,064	3,817,737
Non-Bank Financial Institutions	266,188	83,997	—	—	660,698	7,822,265	—	81,011	445,278	257,834	9,617,271
Real Estate	—	—	—	—	3,696,144	—	—	14,171	758,959	229,054	4,698,328
Trade	243	24,742	—	—	6,878,102	—	—	778,534	13,972,336	5,229,324	26,883,281
Transport, Storage & Communication	242	653	—	—	1,855,481	—	—	49,680	2,905,788	2,799,304	7,611,148
Other Services	624,082	15,692	—	—	8,793,132	400,497	806,979	138,460	11,822,598	4,217,916	26,819,356
Individuals & HNIs	—	—	—	—	11,816,373	—	—	171,553	6,672,316	1,561	18,661,803
Others ¹	—	—	—	—	—	—	—	3,008,907	—	—	3,008,907
Total	6,090,890	4,338,858	897,814	19,734,923	46,351,320	25,960,050	29,602,340	5,413,094	56,566,965	38,694,871	233,651,125

1 Others majorly includes goodwill, fixed assets and other intangibles.

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

Breakdown of exposures by geographical areas

Exposures by geographical areas	31 Dec 2024										
	On Balance sheet exposure							Off Balance sheet exposure			
	Trading assets	Derivatives	Cash	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements non-trading	Financial investments	Loan and other credit-related commitments			Total
								Other assets ¹	Financial guarantees and similar contracts		
AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	
United Arab Emirates	4,372,886	533,470	713,194	18,444,655	41,334,206	10,686,515	13,061,581	5,317,946	51,400,861	28,799,105	174,664,419
GCC (Except UAE)	1,367,521	374,539	—	4,988,558	1,272,142	10,405,317	1,610,421	293,027	3,439,626	1,092,742	24,843,893
Europe	198,909	2,543,233	—	188,369	3,045,875	2,018,318	2,400,917	70,348	4,145,488	6,844,119	21,455,576
Asia	85,868	87,263	—	223,415	2,510,257	5,984,800	495,332	81,079	1,109,821	4,724,971	15,302,806
Others ^{1,2}	442,370	38,627	—	2,431,810	1,742,466	666,617	13,635,514	236,650	1,293,956	2,582,037	23,070,047
Total	6,467,554	3,577,132	713,194	26,276,807	49,904,946	29,761,567	31,203,765	5,999,050	61,389,752	44,042,974	259,336,741

31 Dec 2023 ³											
United Arab Emirates	2,904,734	516,887	897,814	11,093,367	38,633,217	8,336,456	14,159,682	4,782,376	49,971,444	26,409,796	157,705,773
GCC (Except UAE)	2,747,332	112,215	—	6,028,137	1,246,431	15,688,039	1,405,706	334,533	988,689	982,282	29,533,364
Europe	219,187	3,409,717	—	185,229	2,250,912	483,351	1,752,055	118,306	2,971,861	6,055,129	17,445,747
Asia	23,967	185,382	—	230,283	2,351,454	1,452,204	1,726,716	33,698	1,021,855	3,390,099	10,415,658
Others ^{1,2}	195,670	114,657	—	2,197,907	1,869,306	—	10,558,181	144,181	1,613,116	1,857,565	18,550,583
Total	6,090,890	4,338,858	897,814	19,734,923	46,351,320	25,960,050	29,602,340	5,413,094	56,566,965	38,694,871	233,651,125

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

2 Other geographical areas majorly includes exposures to United States of America and Egypt.

3 We enhanced our geographical reporting processes during 4Q24 and comparatives have been restated.

The table below shows the gross carrying amount of non performing loans and advances, expected credit losses and write off by industry.

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

Industry	31 Dec 2024			31 Dec 2023		
	Non Performing Loan	ECL	Write-off	Non Performing Loan	ECL	Write-off
	AED000	AED000	AED000	AED000	AED000	AED000
Construction	1,028,471	856,916	58,470	957,666	906,100	1,559
Electricity, Gas and Water	52,464	13,827	—	131,770	52,469	—
Manufacturing	159,091	124,145	127,519	282,079	269,079	26,192
Mining & Quarrying	41,967	35,000	—	53,513	49,550	—
Real Estate	428,619	69,012	97,139	509,000	167,126	307,877
Trade	235,200	192,706	119,980	372,372	340,739	25,652
Transport, Storage & Communication	4,116	4,115	9	4,068	3,993	191
Other Services	500,323	262,163	39,325	435,141	128,491	410,331
Individuals	106,578	74,561	168,381	137,196	106,083	140,228
Total	2,556,829	1,632,445	610,823	2,882,805	2,023,630	912,030

The table below shows the gross carrying amount of non performing loans and advances, expected credit losses and write off by geography.

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

Country	31 Dec 2024			31 Dec 2023 ²		
	Non Performing Loan	ECL	Write-off	Non Performing Loan	ECL	Write-off
	AED000	AED000	AED000	AED000	AED000	AED000
United Arab Emirates	2,442,281	1,518,375	600,215	2,767,466	1,982,475	886,392
Europe	114,297	114,026	10,577	114,128	40,855	—
Asia	—	—	—	—	—	7,275
Others ¹	251	44	31	1,211	300	18,363
Total	2,556,829	1,632,445	610,823	2,882,805	2,023,630	912,030

1 Other countries majorly include exposures to United States of America.

2 We enhanced our geographical reporting processes during 4Q24 and comparatives have been restated.

The tables below provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired.

Ageing analysis of accounting past-due exposures

	31 Dec 2024					
	Gross carrying amount		Allowance for ECL		Net carrying amount	
	1 to 29 DPD	30 and > DPD	1 to 29 DPD	30 and > DPD	1 to 29 DPD	30 and > DPD
	AED000	AED000	AED000	AED000	AED000	AED000
Industry and Past Due						
Loans and advances to customers held at amortised cost	356,152	1,697,093	(191,382)	(1,296,853)	164,770	400,240
– Corporate and commercial	267,922	1,573,415	(176,023)	(1,221,487)	91,899	351,928
– Personal banking	88,198	123,655	(15,359)	(75,366)	72,839	48,289
– Non-bank financial institutions	32	23	—	—	32	23
Other financial assets measured at amortised cost	11,184	13,289	(2)	(36)	11,182	13,253

31 Dec 2023						
Loans and advances to customers held at amortised cost	312,286	2,293,529	(44,810)	(1,787,726)	267,476	505,803
– Corporate and commercial	199,481	2,153,724	(32,453)	(1,696,666)	167,028	457,058
– Personal banking	112,780	139,802	(12,357)	(91,060)	100,423	48,742
– Non-bank financial institutions	25	3	—	—	25	3
Other financial assets measured at amortised cost	7,381	894	(1)	(9)	7,380	885

The tables below show changes in gross carrying amount of restructured loans and advances.

Breakdown of restructured exposures between impaired and not impaired exposures

	31 Dec 2024				
	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Total
Impaired/Not impaired					
Not impaired loans	5,780	8,448	20,905	—	35,133
Impaired loans	32,479	47,884	1,439,914	—	1,520,277
TOTAL	38,259	56,332	1,460,819	—	1,555,410

31 Dec 2023					
Not impaired loans	22,632	4,564	12,695	—	39,891
Impaired loans	29,324	61,538	1,519,477	—	1,610,339
TOTAL	51,956	66,102	1,532,172	—	1,650,230

Credit risk mitigation techniques (CRC)

Our approach to granting credit facilities is on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency. Detailed policies cover the acceptability, structuring and terms relating to the availability of credit risk mitigation such as in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Netting

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

Collateral

The most common method of mitigating credit risk is to take collateral. In HBME UAE's retail residential and Corporate Real Estate ('CRE') businesses, a mortgage over the property is usually taken to help secure claims. Physical collateral is also taken in various forms of specialized lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Guarantees from third parties can arise where the group extends facilities without the benefit of any alternative form of security, e.g., where it issues a bid or performance bond in favour of a non-customer at the request of another bank.

For further details of collateral and other credit enhancements held, see page 53 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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Valuing collaterals

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

Policies and procedures

Our internal policies and procedures govern the protection of HBME UAE's position, for instance in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations and through controls over the integrity, current valuation and if necessary, realization of collateral security.

Mortgage lending policy and Processes are developed and implemented to manage the high level of risk emanating from effects of cyclical developments on local housing markets. Valuation policies and processes, including enrolment of valuation firms are owned by credit risk function to adhere with regulatory loan to value requirements, and to manage credit risk throughout the mortgage life cycle. Insurance protection requirement is embedded into the Credit policy to manage the life risk of borrower and physical risk on collateral properties.

Other forms of credit risk mitigation

In corporate lending, the group also takes guarantees from corporates and export credit agencies, credit default swaps, Insurance etc. Corporates would normally provide guarantees as part of a parent/subsidiary or common parent relationship and would span across several credit grades. The export credit agencies will normally be investment grade.

Concentration risk for retail business is managed through risk appetite metrics, portfolio exposure caps, and diversification of asset book across secured and unsecured products. Granular caps and triggers are implemented to diversify the risk within portfolios.

Management of residual credit risk

Residual credit risk is the risk that credit risk mitigation techniques prove less effective than expected. Risk mitigation measures will often still leave residual credit risk (e.g., thresholds, durations between revaluation periods and the time to potential unwind) and this is considered when considering transactions. Default cases where the credit losses result from the failure of credit risk mitigation techniques remain part of the dataset used for local/Regional probability of default model development and calibration with additional prudential buffer. The group's and the Bank's approach to credit risk measurement for regulatory and economic capital therefore incorporates any potential residual risk.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee, non-financial collateral or a credit derivative, the exposure is divided into covered and uncovered portions. The covered portion is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses in credit derivatives, where appropriate) to the amount of the protection provided and attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor.

The value of exposure fully or partially covered by eligible financial collateral is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments (including those for currency mismatch) which are determined by the specific type of collateral (and its credit quality, in the case of eligible debt securities) and its liquidation period. The adjusted exposure value is subject to the risk rating of the obligor.

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

Credit risk mitigation techniques – overview (CR3)

		31 Dec 2024					
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees ¹	Exposures secured by financial guarantees, of which: secured amount ¹	Exposures secured by credit derivatives, of which: secured amount
		AED000	AED000	AED000	AED000	AED000	AED000
1	Loans	69,288,570	1,040,100	972,105	8,143,056	6,953,114	—
2	Debt securities	31,356,215	—	—	108,706	108,706	—
3	Total	100,644,784	1,040,100	972,105	8,251,762	7,061,820	—
4	– of which: defaulted	994,502	2,241	2,241	—	—	—
		31 Dec 2023					
1	Loans	62,288,502	1,138,109	869,234	4,417,620	3,751,354	—
2	Debt securities	29,784,329	—	—	—	—	—
3	Total	92,072,831	1,138,109	869,234	4,417,620	3,751,354	—
4	– of which: defaulted	901,788	2,632	2,632	—	—	—

1 We enhanced our calculation processes during 4Q24 and comparatives have been restated.

Exposures unsecured: carrying amount

- Increase in unsecured loan exposure is mainly due to higher money market placement with Sovereigns and higher term lending with government related entity corporate and corporate real estate asset class. This is partially offset by lower term lending with government related entities.

Exposures secured by financial guarantees

- Increase in secured loan exposures is mainly due to higher term lending with government related entity corporates.

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

The standardised approach is applied for credit risk exposures. The standardised approach requires banks to use risk assessments prepared by external credit assessment institutions ('ECAIs') or external credit agency ('ECAs') to determine the risk weightings applied to rated counterparties. ECAI risk assessments are used to part of the determination of risk weightings for the following classes of exposure.

- central governments and central banks;
- regional governments and local authorities;
- institutions;
- corporates; and
- short-term claims on institutions and corporates.

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

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

The table below provides the split of credit risk exposures under the standardised approach, reflecting the exposure after default ('EAD') before and after the impact of credit risk Mitigation ('CRM') techniques and credit conversion factors ('CCF').

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

Asset classes		31 Dec 2024					
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount AED000	Off-balance sheet amount AED000	On-balance sheet amount AED000	Off-balance sheet amount AED000	RWA AED000	RWA density (%)
1	Sovereigns and their central banks	40,590,652	898,130	40,590,652	26,184	462,748	1
2	Public Sector Entities	7,285,565	6,717,973	7,285,565	1,378,407	6,316,191	73
3	Multilateral development banks	3,927,048	–	3,927,048	–	458,924	12
4	Banks	13,542,978	10,649,395	13,542,978	5,050,475	6,913,852	37
5	Securities firms	–	–	–	–	–	–
6	Corporates	29,856,556	76,445,818	29,856,556	20,093,479	41,984,424	84
7	Regulatory retail portfolios	4,738,445	8,399,063	4,738,445	13,550	3,455,466	73
8	Secured by residential property	7,664,672	3,310	7,664,672	–	3,246,668	42
9	Secured by commercial real estate	2,381,077	302,085	2,381,077	28,744	1,989,328	83
10	Equity Investment in Funds ('EIF')	–	–	–	–	–	–
11	Past-due loans	954,314	418,628	954,314	418,628	1,663,017	121
12	Higher-risk categories	–	–	–	–	–	–
13	Other assets ¹	2,456,333	–	2,456,333	–	2,333,147	95
14	Total	113,397,639	103,834,402	113,397,639	27,009,467	68,823,767	49

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

		31 Dec 2023					
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density (%)
		AED000	AED000	AED000	AED000	AED000	AED000
1	Sovereigns and their central banks	35,141,478	1,146,954	35,141,478	3,084	551,895	2
2	Public Sector Entities	8,427,981	6,481,314	8,427,981	2,130,946	7,373,564	70
3	Multilateral development banks	1,939,702	—	1,939,702	—	—	—
4	Banks	12,663,241	8,480,129	12,663,241	4,296,113	6,988,268	41
5	Securities firms	—	—	—	—	—	—
6	Corporates	27,679,803	71,775,288	27,679,803	16,917,901	39,801,020	89
7	Regulatory retail portfolios	4,683,694	6,745,127	4,683,694	24,897	3,497,671	74
8	Secured by residential property	7,212,199	11,993	7,212,199	—	2,964,260	41
9	Secured by commercial real estate	—	—	—	—	—	—
10	Equity Investment in Funds ('EIF')	—	—	—	—	—	—
11	Past-due loans	711,618	414,155	711,618	414,155	1,159,478	103
12	Higher-risk categories	—	—	—	—	—	—
13	Other assets ¹	2,937,250	—	2,937,250	—	2,560,923	87
14	Total	101,396,966	95,054,960	101,396,966	23,787,096	64,897,079	52

1 Includes fixed assets and other non financial assets.

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

Exposures by asset classes and risk weights (CR5)

		31 Dec 2024								Total credit exposures amount (post CCF and post-CRM)
Risk weight	Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	
		AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
1	Sovereigns and their central banks	39,422,984	907,534	—	10,151	—	276,166	—	—	40,616,836
2	Public Sector Entities	837,043	1,006,730	—	1,410,708	—	5,409,492	—	—	8,663,972
3	Multilateral development banks	3,009,200	—	—	917,848	—	—	—	—	3,927,048
4	Banks	798	8,674,356	—	9,478,786	—	439,364	149	—	18,593,453
5	Securities firms	—	—	—	—	—	—	—	—	—
6	Corporates	4,285,064	2,310,741	—	3,075,339	—	38,316,991	—	1,961,901	49,950,035
7	Regulatory retail portfolios	265,681	—	—	1,725	4,119,940	364,649	—	—	4,751,995
8	Secured by residential property	—	—	6,691,488	—	274,147	699,037	—	—	7,664,672
9	Secured by commercial real estate	420,492	—	—	—	—	1,989,328	—	—	2,409,820
10	Equity Investment in Funds ('EIF')	—	—	—	—	—	—	—	—	—
11	Past-due loans	40,626	—	—	—	—	670,915	661,401	—	1,372,942
12	Higher-risk categories	—	—	—	—	—	—	—	—	—
13	Other assets ¹	713,077	35,400	—	—	—	1,295,715	—	412,141	2,456,333
14	Total	48,994,964	12,934,761	6,691,488	14,894,558	4,394,087	49,461,658	661,550	2,374,042	140,407,106

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

1 Includes fixed assets and other non-financial assets.

Counterparty credit risk ('CCR')

Qualitative disclosure related to counterparty credit risk (CCRA)

Counterparty credit risk ('CCR') arises for derivatives, long settlement transactions and SFTs. It is calculated in both the trading and nontrading books, and is the risk that a counterparty may default before final settlement, for cases where there is a bilateral risk of loss.

The Credit RWA on derivatives (Counterparty credit risk "CCR") is computed based on Standardized Approach ("SA-CCR") for Counterparty credit risk effective 31 Dec'21. The replacement cost and Potential future exposure as computed under SA-CCR is scaled up by 1.4 times in line with Central Bank of UAE's guidelines. Bank is following methods to determine exposure values for CCR:

- the Standardised Approach (SA-CCR) – for derivatives and long settlement transactions.
- the simple/comprehensive approach to recognition of collateral with SFTs.

Limits for CCR exposures, including to central counterparties ('CCPs'), are assigned within the overall credit risk management process. The credit risk function assigns a limit against each counterparty to cover exposure that may arise as a result of a counterparty default. The magnitude of this limit will depend on the overall risk appetite, type of derivatives and type of SFT trading undertaken with a counterparty.

Models and methodologies used in the calculation of CCR are overseen and monitored by the global traded risk model oversight forum. Models are subject to ongoing monitoring and validation. Additionally, they are subject to independent review at inception and on an ongoing basis.

HSBC have established a measure, Cat F, specifically to monitor derivative financing and securities financing transactions at a counterparty level. This is ancillary to the existing Cat B counterparty credit risk measure.

The impact of a downgrade on collateral management from the bank's perspective is not material as the collateral agreements are generally not linked to the bank's rating.

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

General wrong way risk

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

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

Specific wrong way risk

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

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

Wrong way risk measurement and controls

The Bank follows a country based framework for WWR trades.

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

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

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

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

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

WWR Limit approval process follow the same procedure as market risk limits, as mentioned earlier in the document. WWR breaches are also subject to the same escalations as market risk limits included in the general qualitative disclosure requirements related to Market risk section of this report (please refer to page 27). WWR reporting is carried out at least on a monthly basis.

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Wrong Way Risk exposure

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

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

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

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

The impact of a downgrade on collateral management from the bank's perspective is not material as the collateral agreements are generally not linked to the bank's rating.

The table below discloses Counterparty credit risk ('CCR') exposures by approach for derivatives and securities financing transactions.

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

	31 Dec 2024					
	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
	AED000	AED000	AED000	AED000	AED000	AED000
SA-CCR (for derivatives)	718,098	2,898,392		1.4	5,063,087	2,683,566
Internal Model Method (for derivatives and SFTs)			—	—	—	—
Simple Approach for credit risk mitigation (for SFTs)					—	—
Comprehensive Approach for credit risk mitigation (for SFTs)					34,622,309	1,369,020
VaR for SFTs					—	—
Total						4,052,586

31 Dec 2023						
SA-CCR (for derivatives)	531,713	3,120,795		1.4	5,113,511	2,770,811
Internal Model Method (for derivatives and SFTs)			—	—	—	—
Simple Approach for credit risk mitigation (for SFTs)					—	—
Comprehensive Approach for credit risk mitigation (for SFTs)					31,049,004	762,071
VaR for SFTs					—	—
Total						3,532,882

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

Credit valuation adjustment ('CVA') capital charge (CCR2)

		At			
		31 Dec 2024	31 Dec 2024	31 Dec 2023	31 Dec 2023
		EAD post-CRM AED000	RWA AED000	EAD post-CRM AED000	RWA AED000
1	All portfolios subject to the Standardised CVA capital charge	5,655,668	976,084	5,440,715	1,135,737
2	All portfolios subject to the Simple alternative CVA capital charge	—	—	—	—

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

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

Risk weight	31 Dec 2024							Total credit exposure AED000
	0%	20%	50%	75%	100%	150%	Others	
Regulatory portfolio	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Sovereigns	26,581	—	—	—	—	—	—	26,581
Public Sector Entities ('PSEs')	579,939	21,798	17,918	—	203,438	—	—	823,093
Multilateral development banks ('MDBs')	—	—	—	—	—	—	—	—
Banks	17,052,661	1,941,361	3,123,384	—	161,703	—	—	22,279,109
Securities firms	—	—	—	—	—	—	—	—
Corporates	14,757,103	54,059	64,333	—	1,680,986	132	—	16,556,613
Regulatory retail portfolios	—	—	—	—	—	—	—	—
Secured by residential property	—	—	—	—	—	—	—	—
Secured by commercial real estate	—	—	—	—	—	—	—	—
Equity Investment in Funds ('EIF')	—	—	—	—	—	—	—	—
Past-due loans	—	—	—	—	—	—	—	—
Higher-risk categories	—	—	—	—	—	—	—	—
Other assets ¹	4,874,868	—	—	—	—	—	—	4,874,868
Total	37,291,151	2,017,218	3,205,635	—	2,046,127	132	—	44,560,263

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

31 Dec 2023

Risk weight	0%	20%	50%	75%	100%	150%	Others	Total credit exposure
Regulatory portfolio	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Sovereigns	47,999	—	—	—	—	—	—	47,999
Public Sector Entities ('PSEs')	542,074	25,574	5,626	—	198,810	—	—	772,084
Multilateral development banks ('MDBs')	—	—	—	—	—	—	—	—
Banks	21,380,754	1,046,745	3,527,911	—	345,712	—	—	26,301,122
Securities firms	—	—	—	—	—	—	—	—
Corporates	7,897,140	106,559	103,587	—	934,023	—	—	9,041,309
Regulatory retail portfolios	—	—	—	—	—	—	—	—
Secured by residential property	—	—	—	—	—	—	—	—
Secured by commercial real estate	—	—	—	—	—	—	—	—
Equity Investment in Funds ('EIF')	—	—	—	—	—	—	—	—
Past-due loans	—	—	—	—	—	—	—	—
Higher-risk categories	—	—	—	—	—	—	—	—
Other assets ¹	4,847,489	—	—	—	—	—	—	4,847,489
Total	34,715,456	1,178,878	3,637,124	—	1,478,545	—	—	41,010,003

1 Includes trading debt securities, netting derivatives Over-The-Counter ('OTC') and settlement accounts.

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

Composition of collateral for CCR exposure (CCR5)

	31 Dec 2024								
	Collateral used in derivative transactions				Collateral used in SFTs				
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral		
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	
AED000		AED000		AED000		AED000		AED000	
Cash – domestic currency	—	—	—	—	—	—	—	—	—
Cash – other currencies	—	942,712	—	107,972	—	—	—	—	—
Domestic sovereign debt	—	—	—	—	—	—	1,358,151	—	—
Government agency debt	—	—	—	—	—	—	16,928,908	—	—
Corporate bonds	—	—	—	—	—	—	6,957,994	—	—
Equity securities	—	—	—	—	—	—	—	—	—
Other collateral ¹	—	—	—	—	—	—	7,144,650	—	—
Total	—	942,712	—	107,972	—	—	32,389,703	—	—

31 Dec 2023

Cash – domestic currency	—	—	—	—	—	—	—
Cash – other currencies	—	1,328,968	—	107,384	—	—	—
Domestic sovereign debt	—	—	—	—	—	777,831	—
Government agency debt	—	—	—	—	—	15,111,889	—
Corporate bonds	—	—	—	—	—	10,023,879	—
Equity securities	—	—	—	—	—	—	—
Other collateral ¹	—	—	—	—	—	3,906,369	—
Total	—	1,328,968	—	107,384	—	29,819,968	—

1 Other collateral includes reverse repos with banks.

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

Credit derivative exposures (CCR6)

	Protection bought	Protection sold	Protection bought	Protection sold
	31 Dec 2024	31 Dec 2024	31 Dec 2023	31 Dec 2023
	AED000	AED000	AED000	AED000
Notionals				
Single-name credit default swaps	642,688	477,425	459,063	84,468
Index credit default swaps	—	—	—	—
Total return swaps	—	—	—	—
Credit options	—	—	—	—
Other credit derivatives	—	—	—	—
Total notionals	642,688	477,425	459,063	84,468
Fair values				
Positive fair value (asset)	—	33	—	509
Negative fair value (liability)	(9,472)	(1,597)	(9,033)	—

Market risk

General qualitative disclosure requirements related to market risk (MRA)

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

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

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

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

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

Risk profile

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

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

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

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

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

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

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

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

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

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

Limit Proposal, Approvals and Set up

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

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

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

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

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

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

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

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

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

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

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

Limit monitoring

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

These are monitored independently by market risk Control and signed off dually by regional market risk managers as second line of defense and MSS as risk owners (first line of defense).

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

HSBC UAE also monitors market risk limits through limits through Board Approved Metrics ('BAM'), which include the following measures;

- Value at Risk (99%, 1Day) for the trading book.
- Current Exposure Sub-Investment Grade ('SIG').

HSBC UAE also monitors other market risk limits through its key risk indicator framework, which includes the following metrics:

- Value at Risk (10-day, 99% confidence level) for the banking book.
- Stressed VaR (1-day, 99% confidence level) for the trading book.
- IR Outright Risk (PVBP) gross for trading positions.
- IR Outright Risk (PVBP) gross for banking positions (ex-insurance).
- Credit Spread (CS01) for trading positions.
- Credit Spread (CS01) for banking positions.
- Total FX net short position (ex-insurance).
- Total financing.
- Maximum stressed scenario loss for trading positions.

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

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

Further details on market risk, see page 56 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

The table below discloses the components of RWAs under the standardised approach for market risk.

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

	31 Dec 2024	31 Dec 2023
	RWA	RWA
	AED000	AED000
1 General Interest rate risk (General and Specific)	4,432,932	5,050,667
2 Equity risk (General and Specific)	—	—
3 Foreign exchange risk	2,603,982	3,219,348
4 Commodity risk	—	—
6 Options	—	—
5 Simplified approach	—	—
6 Delta-plus method	—	—
7 Scenario approach	—	—
8 Securitisation	—	—
9 Total	7,036,914	8,270,015

The 1.2 billion decrease in market risk RWAs under the standardised approach, mainly attributed to lower FX short positions in GCC currencies and better netting result impacts lower RWAs compared to the previous period.

Operational risk

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

HSBC UAE adopts the group's Risk Management Framework ('RMF') to manage financial and non-financial risks (or operational risks). The RMF sets out our approach to governance, risk management, and the principles for our management of non-financial risks and associated controls. Responsibility for managing non-financial risk lies with our people. During 2024, the bank remained focused on strengthening the approach to managing non-financial risk. We continue to enhance the framework and tools for strengthening the control environment and to improve practices in the management of non-financial risk. The main non-financial risk categories defined by the bank include regulatory compliance, financial crime, legal, resilience risk (which includes technology, data and cyber security risk), financial reporting and tax, people and model risks. Climate risk has impacts across the risk taxonomy, and risk stewards accountability includes the oversight of climate risk impacts to their respective risk types. The RMF includes detailed requirements to identify, assess, manage, aggregate, report and govern non-financial risks across all businesses and functions. There are detailed technical user guides to support the procedures and activities needed for complying with the HSBC's RMF that enables the consistent and effective management of operational risk as part of its business operations and processes. A risk appetite framework defines the requirements for setting and monitoring of the bank's risk appetite to ensure that the bank operates within the appetite set by the board.

HSBC UAE operates a well-defined, established and mature three lines of defense model for operational risk management and the roles and responsibilities of role-holders within the three lines of defense are clearly articulated in the bank's risk management framework.

The first line of defense has ultimate ownership for risk and controls and is accountable for identifying, assessing, and managing key existing and emerging risks they own for their business or function in line with the risk appetite; whilst control owners are accountable for operating controls and the control monitoring processes to assess and report control effectiveness. These first line roles are supported by chief control Officers who are accountable for driving the effective governance and management of non-financial risks in the first line of defense.

The second line of defense provides subject matter expertise, advice, guidance and review and challenge of the first line of defense activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The second line of defense is independent of the risk-taking activities undertaken by the first line of defense. The enterprise risk management sub-function helps the business grow safely by driving governance and management of non-financial risk through the delivery and embedding of effective frameworks and policies, and continuous oversight and assurance of risks, controls, events and impacts.

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

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

HBME adopts the group's operational risk economic capital ('EC') model and methodology for the internal assessment of its economic capital. The group EC model uses a statistically modelled approach based on three key data sources:

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

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

The first line of defense is responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. The RMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

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

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

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

Liquidity

Liquidity risk management (LIQA)

Overview

We manage liquidity and funding risk at an operating entity level, in accordance with globally consistent policies, procedures and reporting standards.

Further details of the our liquidity and funding, see page 56 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Liquidity coverage ratio

The LCR aims to ensure that a bank has sufficient unencumbered HQLA to meet its liquidity needs in a 30 calendar day liquidity stress scenario.

Net stable funding ratio

We use the NSFR or other appropriate metrics as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR is defined as the ratio between the amount of stable funding available and the amount of stable funding required.

Further details of the our liquidity and funding ratios, see page 56 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Balance sheet and off-balance sheet items are broken down into maturity buckets based on remaining contractual maturities at the balance sheet date, of assets and liability expected to be recovered or settled within one year and after more than one year.

Further details of maturity analysis of assets ,liabilities and off balance sheet commitments see page 31 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Stress testing

HSBC operates a wide-ranging stress testing programme that supports our risk management and capital and liquidity planning and assesses our capital and liquidity strength through a examination of our resilience to external shocks. As well as undertaking regulatory driven stress tests, we conduct our own internal stress tests to understand the nature and level of material risks, quantify the impact of such risks and develop plausible mitigating actions. The outcome of a stress test provides management with key insights into the impact of severely adverse events.

Further details of our stress testing programme, see page 35 and 55 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Further details of our liquidity and funding, see page 64 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Liquidity

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

Eligible Liquid Assets Ratio ('ELAR')

	31 Dec 2024	31 Dec 2024	30 Sep 2024	30 Sep 2024
	Nominal amount AED000	Eligible Liquid Asset AED000	Nominal amount AED000	Eligible Liquid Asset AED000
1 High Quality Liquid Assets				
1.1 Physical cash in hand at the bank + balances with the CBUAE	14,159,581		13,735,532	
1.2 UAE Federal Government Bonds and Sukuks	12,241,475		14,863,700	
Sub Total (1.1 to 1.2)	26,401,056	26,401,056	28,599,232	28,599,232
1.3 UAE local governments publicly traded debt securities	705,894		732,505	
1.4 UAE Public sector publicly traded debt securities	—		—	
Sub total (1.3 to 1.4)	705,894	705,894	732,505	732,505
1.5 Foreign Sovereign debt instruments or instruments issued by their respective central banks	4,784,840	4,783,768	5,175,850	5,175,850
1.6 Total	31,891,790	31,890,718	34,507,587	34,507,587
2 Total liabilities		134,190,447		130,680,571
3 Eligible Liquid Assets Ratio ('ELAR') (%)		23.77		26.41

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

Advances to Stables Resource Ratio ('ASRR')

		At	
		31 Dec 2024	30 Sep 2024
		AED000	AED000
1	Computation of Advances		
1.1	Net Lending (gross loans – specific and collective provisions + interest in suspense)	50,364,456	50,304,835
1.2	Lending to non-banking financial institutions	11,448,956	7,208,156
1.3	Net Financial Guarantees & Stand-by LC (issued – received)	(553,931)	(152,881)
1.4	Interbank Placements	11,640,094	12,568,364
1.5	Total Advances	72,899,575	69,928,474
2	Calculation of Net Stable Resources		
2.1	Total capital + general provisions	19,411,712	19,102,308
	Deduct:		
2.1.1	Goodwill and other intangible assets	775,306	765,216
2.1.2	Fixed Assets	863,876	862,002
2.1.3	Funds allocated to branches abroad	–	–
2.1.5	Unquoted Investments	–	–
2.1.6	Investment in subsidiaries, associates and affiliates	–	–
2.1.7	Total deduction	1,639,182	1,627,218
2.2	Net Free Capital Funds	17,772,530	17,475,090
2.3	Other stable resources:		
2.3.1	Funds from the head office	–	–
2.3.2	Interbank deposits with remaining life of more than 6 months	4,931,424	4,451,508
2.3.3	Refinancing of Housing Loans	–	–
2.3.4	Borrowing from non-Banking Financial Institutions	4,418,137	3,867,626
2.3.5	Customer Deposits	84,548,703	79,806,106
2.3.6	Capital market funding/term borrowings maturing after 6 months from reporting date	519,490	611,661
2.3.7	Total other stable resources	94,417,754	88,736,901
2.4	Total Stable Resources (2.2+2.3.7)	112,190,284	106,211,991
3	Advances to Stable Resources Ratio (1.5/2.4*100) (%)	64.98	65.84

Interest rate risk in the banking book ('IRRBB')

IRRBB risk management objectives and policies (IRRBBA)

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

Regional Treasury governs and controls IRRBB. This includes:

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

The internal transfer pricing framework is constructed to ensure that structural interest rate risk is bought in (transferred to) by Treasury for monitoring, controlling, and hedging. UAE ALCO governs the internal transfer pricing framework. The ALCO defines transfer pricing curve, reviews, and annually approves the transfer pricing policy, including hedge assumptions used for products where there is no defined maturity. UAE policies are in line with HSBC group's policies.

The group's IRRBB risk management framework monitors and controls the potential volatility in future net interest income, the potential variability in economic value, and any potential impacts on capital. This is achieved using a few risk management tools including using earnings and valuation metrics which includes but is not limited to Net interest Income ('NII') Sensitivity and Economic Value ('EVE') Sensitivity.

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

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

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

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

EVE excludes commercial margin from the cash flows and is discounted at risk free rate.

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

Prepayment risk is continually assessed on historical data and trends are highlighted to senior management and ALCO.

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

NII and its sensitivity is calculated for material currencies.

Quantitative information

- Average repricing maturity assigned to NMDs 1.9 years – (2023 – 1.2 years).
- Longest repricing maturity assigned to NMDs 5 years – (2023 – 5 years).

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

Quantitative information on IRRBB (IRRBB1)

Period	ΔEVE		ΔNII	
	31 Dec 2024		31 Dec 2023	
	AED000	AED000	AED000	AED000
Parallel up	(492)	785	(733)	638
Parallel down	582	(804)	841	(791)
Steeper	(146)	—	(183)	—
Flattener	54	—	(57)	—
Short rate up	(141)	—	(321)	—
Short rate down	152	—	166	—
Maximum	—	—	—	—
Tier 1 capital	15,971,920		14,848,371	

Remuneration policy (REMA)

Introduction

The remuneration approach for HSBC UAE is aligned to HSBC group reward strategy, proposition and complies with regulatory requirement of group's parent regulator and UAE local regulations.

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

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

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

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

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

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

Our approach to workforce reward

Rewarding colleagues

Our goal is to deliver a unique and exceptional experience to energise colleagues to perform at their best and to sustain our performance. This is critical to strengthening our ability to attract, retain and motivate the people we need, in competitive labour markets where employee expectations continue to evolve. Our approach is centred on our purpose and values and focuses on the unique opportunity for colleagues when they choose to work for HSBC, and what they can expect when they deliver on our strategy. 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.

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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.

In 2024, We introduced a new target variable pay structure for junior and middle management colleagues, providing more clarity around the variable pay levels for on-target performance, while retaining flexibility to differentiate outcomes for performance. Changes to our pay structure provide more clarity and transparency on how we make pay decisions and how performance impacts variable pay, helping colleagues understand how they contribute to the performance of the organisation.

Overview of remuneration structure for employees

We set out below the key features of our remuneration framework, which applies on a group-wide basis, subject to compliance with local laws:

Fixed pay

- Attract and retain employees with market competitive pay for the role, skills and experience required.
- May include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practice.
- Is based on predetermined criteria, non-discretionary, transparent, and not reduced based on performance.
- May change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities, and experience.
- It represents a higher proportion of total compensation for more junior colleagues and is generally delivered in cash on a monthly basis.

Benefits

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

Variable Pay

- Incentivise and reward performance based on annual financial and non-financial measures consistent with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.
- All colleagues are eligible to be considered for a discretionary variable pay award. Individual awards are determined against objectives for performance set at the start of the year.
- Variable pay represents a higher proportion of total compensation for more senior colleagues to strengthen alignment between total compensation with business performance.
- Variable pay for employees is limited to 10 times fixed pay, except where local regulations require otherwise. For employees identified as Material Risk Taker ('MRT') under UAE Central Bank requirement the variable pay is capped at 200% of annual Fixed Pay.
- Awards are generally paid in cash and shares. For employees identified as group MRTs, at least 50% of the awards are in shares and/or where required by regulations, in units linked to asset management funds.

Buy-out awards

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

New hire indicative variable pay

- Support recruitment of key individuals.
- New hire indicative variable pay is awarded in exceptional circumstances, typically involving a critical senior new hire, and is limited to an individual's first year of employment only. The award is subject to a number of factors (such as the respective performance of the group, business unit and individual), and the final value paid remains at the full discretion of HSBC.

Deferral

- A group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares vesting annually over a three-year period (33% vesting on the first and second anniversaries of grant and 34% on the third).
- Awards for group MRTs are paid in line with the PRA and FCA remuneration rules, and in compliance with local regulations for those identified as MRT under UAE Central Bank regime.
- This means that for group MRT awards are generally subject to a minimum 40% deferral (60% for awards of £500,000 or more) over a minimum period of four years up to a maximum of seven years.
- Group standard deferral generally applies to MRTs identified as 'de minimis'. Individuals based outside the UK and identified as MRTs under local regulations, would be subject to local requirements where necessary.
- All deferred awards are subject to malus provisions, subject to compliance with local laws. Awards granted to MRTs on or after 1 January 2015 and awards granted to non-MRTs on or after 1 January 2022 are subject to clawback.
- HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC securities.
- For all group MRTs and the majority of local MRTs, excluding executive Directors, a minimum 50% of the deferred awards is in HSBC shares and the rest into deferred cash. Local regulatory requirements would also apply where necessary.
- For some employees in our asset management business, where required by the relevant regulations, at least 50% of the deferred award is linked to fund units reflective of funds managed by those entities, with the remaining portion in deferred cash awards.
- Variable pay awards made in HSBC shares or linked to relevant fund units granted to MRTs are generally subject to a one-year retention period post-vesting.

- MRTs who are subject to a five-year deferral period, except senior management or individuals in PRA- and FCA-designated senior management functions, have a six-month retention period applied to their awards.
- Where an employee is subject to more than one regulation, the requirement specific to the sector and/or country in which the individual is working is applied. For employees identified as MRT under UAE Central Bank regulation, group Standard Deferral applies and for those identified under both group and UAE MRT requirement stringent of the two applies.
- Deferred award for MRT identified under UAE Central Bank regulations is made in HSBC shares.

Governance framework and oversight

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

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

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

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

The group Chief Risk & Compliance Officer will attend meetings to report on the alignment of the group's remuneration framework and proposals with its risk profile and risk management.

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

The Committee consults with the Group Risk Committee ('GRC') on the alignment of risk and remuneration and on risk adjustments to be applied in setting annual variable pay pool. The Committee also considers material issues raised by the Group Audit Committee ('GAC') resulting from the work of Internal Audit, including communication of relevant internal audit findings on remuneration matters.

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

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

Link between risk, performance and reward

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

Variable pay pool

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

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

- Group and business unit financial performance, considering contextual factors driving performance, and capital requirements;

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- current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan, and global conduct outcomes; and
- fines, penalties, and provisions for customer redress, which are automatically included in the Committee's definition of profit for determining the pool.

In the event that the group was unable to distribute dividends to shareholders for reasons such as capital adequacy, then the group may determine.

Individual performance scorecards

- Assessment of individual performance is made with reference to clear and relevant financial and non-financial objectives. Objectives for senior management take into account appropriate measures linked to sustainability risks, such as: reduction in carbon footprint; facilitating financing to help clients with their transition to net zero; employee diversity; and risk and compliance measures.
- A mandatory global risk and compliance objective is included for all other employees. Employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved.

Control Function Staff

- Group policy is for control functions staff to report into their respective function. Remuneration decisions for senior functional roles are made by the global function head.
- The performance and reward of individuals in control functions, including risk and compliance colleagues, are assessed according to a balanced scorecard of objectives specific to the functional role they undertake.
- Their remuneration is determined independent of the performance of the business areas they oversee.
- Remuneration is carefully benchmarked with the market and internally to ensure it is set at an appropriate level.
- The Committee is responsible for approving the remuneration for the Group Chief Risk and Compliance Officer and Group Head of Internal Audit.

Variable pay adjustments and conduct recognition

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

Malus & Clawback Policy

Malus can be applied to unvested deferred awards (up to 100% of awards) granted in prior years in circumstances including:

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

Clawback can be applied to vested or paid awards granted to MRTs on or after 1 January 2015 (and awards granted to non-MRTs on or after 1 January 2022) for a period of seven years, extended to 10 years for employees in PRA and FCA designated senior management functions in the event of ongoing internal/regulatory investigation at the end of the seven-year period. Clawback may be applied in circumstances including:

- participation in, or responsibility for, conduct that results in significant losses;
- failing to meet appropriate standards and propriety;
- reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment;
- a material failure of risk management suffered by HSBC or a business unit in the context of group risk-management standards, policies and procedures; and
- Clawback can also be applied to vested or paid awards granted to designated Executive Officers as defined by the US Securities and Exchange Commission ('SEC') for a period of three years in the event of an accounting restatement due to material noncompliance with any financial reporting requirement under the US securities laws.

Sales incentives:

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

Identification of MRTs

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

- MRTs are identified at group, HSBC Bank (consolidated) and HSBC UK Bank level.
- MRTs are also identified at other solo regulated entity level as required by the regulations. For HBME UAE in addition to identifying MRT per group policy MRT are also identified as per UAE Central Bank Corporate Governance Regulations & Standards.

- Under the UAE Central Bank Requirement, the following roles but not limited to were considered for identification of MRT:
 - UAE CEO and Senior Management which includes Heads of Businesses.
 - Heads of Control Functions.
 - Head of Credit Risk.
 - Members of Risk team in credit approval authority with a limit/authority as defined by group threshold.
 - Traders over a group defined mandate/ threshold.
- When identifying an MRT, HSBC considers a colleague's role within its matrix management structure. The global business and function that an individual works within takes precedence, followed by the geographical location in which they work.
- We also identify additional MRTs based on our own internal criteria, which include compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under the Remuneration Rules.
- Remuneration structure for MRTs identified under each regulation is aligned to prescribed MRT Compensation rules.

The group Remuneration committee reviews the group Remuneration policy at least annually. In the context of significant regulatory change following removal of the 2:1 variable to fixed pay ratio by group's parent regulator, the PRA. Following shareholder approval at the 2024 AGM, the Committee reviewed several options to set new pay ratios and concluded that a single overall ratio of 10:1 was most appropriate, supported by internal guidance to manage expectations on its application. The ratio will apply across the group, where permitted by regulation. The ratio will support us to materially strengthen alignment of pay and performance in our executive Directors' remuneration policy. The ratio has limited impact on the wider workforce and is higher than we intend on using in practice. However, the new cap gives us flexibility to reward extraordinary individual performance delivered by a small number of employees in frontline roles. We will continue to keep our pay principles and approach under review, monitoring market developments and competitiveness, to increase the proportion of pay for performance over time. To ensure compliance with UAE Central Bank regulation for those Identified as MRT under UAE Central Bank regime we continue to apply variable pay cap of 2 times annual fixed pay.

In addition to the above the group's deferral policy has also been updated effective PY2024 grant, this applies to those identified as MRT under UAE Central Bank regime and all other employees with variable pay award of USD 100,000 or higher. The changes to deferral policy are as noted below :

- The threshold for having any variable pay deferred has increased from USD 75,000 to USD 100,000.
- The highest thresholds for deferral (where variable pay exceeds USD 500,000 and USD 750,000) have been removed, meaning the maximum deferral rate for UAE Central Bank MRT and other non-MRTs is now 30%.

Additionally, from 2024 the number of shares under award will be calculated using the average closing price and FX of the week before grant.

► Further details of our remuneration policy, see page 69 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Remuneration awarded during the financial year (REM1)

Remuneration Amount		Senior Management	Other Material Risk-takers	Senior Management	Other Material Risk-takers	
		31 Dec 2024 AED000	31 Dec 2024 AED000	31 Dec 2023 AED000	31 Dec 2023 AED000	
1	Fixed Remuneration	Number of employees	20	4	12	3
2		Total fixed remuneration (3 + 5 + 7)	22,687	3,851	21,752	3,186
3		of which: cash-based	22,687	3,851	21,752	3,186
4		of which: deferred	—	—	—	—
5		of which: shares or other share-linked instruments	—	—	—	—
6		of which: deferred	—	—	—	—
7		of which: other forms	—	—	—	—
8		of which: deferred	—	—	—	—
9	Variable Remuneration	Number of employees	20	3	11	3
10		Total variable remuneration (11 + 13 + 15)	23,555	1,680	17,439	257
11		of which: cash-based	13,302	963	9,115	257
12		of which: deferred	5,323	287	4,141	—
13		of which: shares or other share-linked instruments	10,253	717	8,324	—
14		of which: deferred	6,090	287	4,235	—
15		of which: other forms	—	—	—	—
16		of which: deferred	—	—	—	—
17	Total Remuneration (2+10)	46,242	5,531	39,191	3,443	

Senior management and other material risk-takers have been redefined during 2023. The number of senior manager roles reported compared to 2023 reporting has increased due to total number of employees occupying these roles is higher resulting from employee movements.

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

Special payments (REM2)

	31 Dec 2024					
	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount AED000	Number of employees	Total amount AED000	Number of employees	Total amount AED000
Senior Management	—	—	—	—	3	3,823
Other material risk-takers	1	400	—	—	—	—
31 Dec 2023						
Senior Management	—	—	—	—	—	—
Other material risk-takers	—	—	—	—	1	264

The tables below discloses the deferred remuneration details during the year.

Deferred remuneration (REM3)

	31 Dec 2024					
	Deferred and retained remuneration	Total amount of outstanding deferred remuneration	of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	30,666	20,192	—	4,351	6,162	
Cash	10,474	—	—	—	2,299	
Shares	19,936	19,936	—	4,301	3,636	
Cash-linked instruments	—	—	—	—	—	
Other ¹	257	257	—	50	228	
Other material risk-takers	1,596	1,019	—	219	390	
Cash	577	—	—	—	172	
Shares	1,019	1,019	—	219	218	
Cash-linked instruments	—	—	—	—	—	
Other ¹	—	—	—	—	—	
Total	32,263	21,212	—	4,570	6,552	
31 Dec 2023						
Senior management	17,365	10,458	—	1,104	4,285	
Cash	6,907	—	—	—	1,286	
Shares	10,035	10,035	—	1,027	2,790	
Cash-linked instruments	—	—	—	—	—	
Other ¹	422	422	—	78	209	
Other material risk-takers	835	499	—	52	267	
Cash	336	—	—	—	121	
Shares	499	499	—	52	146	
Cash-linked instruments	—	—	—	—	—	
Other ¹	—	—	—	—	—	
Total	18,200	10,957	—	1,157	4,552	

¹ Other includes share-linked instruments.

Number of senior manager roles reported compared to 2023 reporting has increased due to total number of employees occupying these roles during performance year were higher due to employee movements (Please refer to page 36).

HSBC Bank Middle East Limited

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HSBC Bank Middle East Limited

Incorporated in the Dubai International Financial Centre.

Regulated by the Central bank of the U.A.E and

lead regulated by the Dubai Financial Services Authority

HSBC Bank Middle East Limited - UAE Operations