

HSBC Bank Middle East Limited – UAE Operations

Financial Statements 2025



Contents

2	Independent Auditor's Report To the Chief Executive Officer of HSBC Bank Middle East Limited – UAE Operations
11	Financial Statements
11	Income statement
12	Statement of comprehensive income
13	Statement of financial position
14	Statement of cash flows
15	Statement of changes in Head Office funds
16	Notes on the financial statements
16	1 Legal status and principal activities
16	2 Basis of preparation and material accounting policies
24	3 Net fee income
24	4 Employee compensation and benefits
25	5 Auditors' remuneration
26	6 Tax
27	7 Segmental analysis
28	8 Trading assets
28	9 Fair values of financial instruments carried at fair value
32	10 Fair values of financial instruments not carried at fair value
33	11 Derivatives
35	12 Financial investments
35	13 Assets charged as security for liabilities, and collateral accepted as security for assets
35	14 Joint arrangement
35	15 Prepayments, accrued income and other assets
36	16 Intangible assets
36	17 Customer Accounts
36	18 Trading liabilities
36	19 Financial liabilities designated at fair value
36	20 Accruals, deferred income and other liabilities
37	21 Provisions
37	22 Maturity analysis of assets, liabilities and off-balance sheet commitments
39	23 Offsetting of financial assets and financial liabilities
40	24 Risk management
64	25 Contingent liabilities, contractual commitments and guarantees
65	26 Finance lease receivables
65	27 Legal proceedings and regulatory matters
66	28 Related party transactions
67	29 Events after the balance sheet date
68	Additional information
68	Top and emerging risks
71	Liquidity and funding ratios
72	Capital requirement
73	Corporate governance report
79	Annual Report of the Internal Shari'ah Supervision Committee of HSBC Bank Middle East Limited, UAE Branch

Presentation of Information

This document comprises the Annual Report and Accounts 2025 for HSBC Bank Middle East Limited – UAE Operations ('the Bank'). It contains the Financial Statements together with the Auditor's report and Additional information. References to 'HSBC' or 'the HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Refer the HSBC Group Annual Report and Accounts 2025 for disclosures related to Environment, Social and Governance ('ESG').



Independent auditor's report

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank Middle East Limited in respect of its UAE Operations (the “Bank”) as at 31 December 2025, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2025;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in Head Office funds for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information on pages 16 to 67.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent auditor’s report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations (continued)

Basis for opinion (continued)

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as applicable to audits of financial statements of public interest entities and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter	Expected credit losses - Impairment on loans and advances to customers
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor’s report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations (continued)

Our audit approach (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses - Impairment on loans and advances to customers</p> <p>We focused on the Expected Credit Losses (‘ECL’) for loans and advances to customers due to the materiality of these balances and the associated allowances for ECL. In addition, the compliance with IFRS in this area involves management judgement and is subject to a high degree of estimation uncertainty.</p> <p>As disclosed in note 24, the allowance for ECL for loans and advances to customers as at 31 December 2025, is AED 2.4 billion.</p> <p>Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement which had the most significant impact on ECL. These included assumptions made in:</p> <ul style="list-style-type: none"> • the application and determination of forward looking economic scenarios and their probability weights; • estimating material management judgemental adjustments; and • estimating expected cash flows for credit impaired wholesale exposures. 	<p>We assessed the design and operating effectiveness of governance and controls over the estimation of ECL.</p> <p>We observed management’s review and challenge at governance forums where we observed assessment of ECL for Retail and Wholesale portfolios, including the assessment of model limitations and any resulting management judgmental adjustments.</p> <p>We also tested controls over:</p> <ul style="list-style-type: none"> • Credit reviews that determine customer risk ratings for wholesale customers; • the identification of credit impairment triggers; • the input of critical data into source systems, and the flow and transformation of critical data from source systems to the impairment calculation engine; • the calculation and approval of management judgemental adjustments to modelled outcomes; and • approval of significant individual impairments. <p>We involved our modelling experts in assessing the appropriateness of modelling methodologies that were enhanced during the year. We also assessed the appropriateness of modelling methodologies that did not change during the year.</p>

Independent auditor’s report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations (continued)

Our audit approach (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
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Expected credit losses - Impairment on loans and advances to customers
(continued)

The level of estimation uncertainty and judgement has remained high during 2025 as a result of the uncertain macroeconomic and geopolitical environment and a change in global interest rate environment. Economic conditions vary between industries, leading to uncertainties around judgements made in determining the severity and probability weighting of macroeconomic variable forecasts across the different economic scenarios used in ECL models.

The modelling methodologies used to estimate ECL are developed using historical experience. The impact of the prevailing economic conditions has resulted in certain inherent limitations in the use of these methodologies to forecast the extent and timing of expected customer defaults and therefore on estimation of ECL. In addition, modelling methodologies do not incorporate all factors that are relevant to estimating ECL, such as differing impact of economic conditions on industry sectors. These limitations are addressed with management adjustments, the measurement of which is inherently judgmental and subject to a high level of estimation uncertainty.

In addition, we performed substantive testing over:

- appropriateness and application of the quantitative and qualitative criteria used to assess significant increase in credit risk;
- a sample of critical data used in the year-end ECL calculation and management judgmental adjustments;
- a sample of credit reviews to determine that Credit Risk Ratings were appropriately applied to wholesale exposures.

We obtained reporting from PricewaterhouseCoopers LLP (PwC UK’) containing the results of certain centralised audit procedures in respect of ECL. We reviewed the reporting received in the context of the appropriateness of the nature, timing and extent of the work performed for the purpose of our audit. Their work included:

- the compliance of ECL methodologies and assumptions with the requirements of IFRS 9;
- testing of model validation and monitoring controls;
- observing the review and challenge at governance forum’s discussions around the determination of macroeconomic variable (MEV’) forecasts and their likelihood for different economic scenarios;
- testing of the calculation and approval of management judgmental adjustments to modelled outcomes; and
- assessment of the significant assumptions made in determining the severity and probability weighting of MEV forecasts using the PwC UK member firm’s economic experts.

Independent auditor’s report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations (continued)

Our audit approach (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses - Impairment on loans and advances to customers (continued)</p> <p>Management develops policies and procedures and implements controls over the approval process on loans and advances to customers, including setting of risk appetite thresholds and credit limits, which provide a framework for the identification, monitoring and mitigation of credit risk.</p> <p>Management makes other assumptions which are less judgmental or for which variations have a less significant impact on ECL. These assumptions include:</p> <ul style="list-style-type: none"> quantitative scorecards used in determining customer risk ratings (CRRs); and quantitative and qualitative criteria used to assess significant increases in credit risk. 	<p>We assessed, on a sample basis, that reported exceptions to policies and procedures, if any, as outlined in the Risk Appetite Statement and corporate limit exceptions, if any, were approved by Regional Senior Management and/or its approved delegate and the approval process was formally documented.</p> <p>We performed independent credit assessments for a sample of wholesale exposures, by assessing the quantitative and qualitative factors, including an assessment of the financial performance of the customer, the source of repayments and its history, and other relevant risk factors.</p> <p>For a sample of Stage 3 wholesale customers, we assessed:</p> <ul style="list-style-type: none"> the appropriateness of discounted cash flows, including the discount rates used and the probable scenario analysis; and the robustness of the Bank’s processes / controls with respect to the valuation and enforceability of collateral, including the underlying assumptions. <p>We assessed the disclosures included in the relevant notes to the financial statements and assessed their compliance with the requirements of applicable IFRS Accounting Standards.</p>



Independent auditor's report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations (continued)

Our audit approach (continued)

Other information

Management is responsible for the other information. The other information comprises the additional information and the Annual Report of the Internal Sharia'ah Supervision Committee Report set out in pages 68 to 82 as included in the Annual Report (but does not include the financial statements and our auditor's report thereon).

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

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

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and their preparation in compliance with the applicable provisions of the UAE Federal Decree-Law No. (6) of 2025 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent auditor's report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations (continued)

Auditor's responsibility for the audit of financial statements

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

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

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



Independent auditor's report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations
(continued)

Auditor's responsibility for the audit of financial statements

(continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Independent auditor's report (continued)

To the directors of HSBC Bank Middle East Limited in respect of its UAE Operations
(continued)

Report on other regulatory requirements

Further, as required by UAE Federal Decree-Law No. (6) of 2025, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers Limited Partnership Dubai Branch

18 March 2026

A handwritten signature in black ink, appearing to read 'Jigesh', written over a horizontal line.

Jigesh Ashokkumar Shah

Registered Auditor Number 5621

Place: Dubai, United Arab Emirates

Financial statements

Income statement

for the year ended 31 December

Notes	2025 AED000	2024 AED000
Net interest income	4,496,979	4,550,523
– interest income ¹	7,083,352	6,993,832
– interest expense ²	(2,586,373)	(2,443,309)
Net fee income	1,540,527	1,377,016
– fee income	2,227,141	1,985,965
– fee expense	(686,614)	(608,949)
Net income from financial instruments held for trading or managed on a fair value basis	930,832	893,428
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	36,207	10,451
Gains less losses from financial investments	3,980	2,835
Other operating income	512,617	439,214
Net operating income before change in expected credit losses and other credit impairment charges	7,521,142	7,273,467
Change in expected credit losses and other credit impairment charges	(494,578)	(542,567)
Net operating income	7,026,564	6,730,900
Employee compensation and benefits	(1,872,308)	(1,722,898)
General and administrative expenses	(1,574,485)	(1,255,656)
Depreciation and impairment of property, plant and equipment and right-of-use assets	(84,086)	(78,700)
Amortisation and impairment of intangible assets	(228,744)	(199,985)
Total operating expenses	(3,759,623)	(3,257,239)
Profit before tax	3,266,941	3,473,661
Tax expense	(717,845)	(814,810)
Profit for the year	2,549,096	2,658,851
Attributable to:		
– shareholder of the parent company	2,549,096	2,658,851
Profit for the year	2,549,096	2,658,851

1 Interest income includes AED 6,035m (2024: AED 5,899m) of interest recognised on financial assets measured at amortised cost and AED1,049m (2024: AED 1,094m) of interest recognised on financial assets measured at fair value through other comprehensive income.

2 Interest expense includes AED 2,551m (2024: AED 2,400m) of interest on financial liabilities measured at amortised cost, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value.

The accompanying notes on pages 16 to 67 form an integral part of these financial statements.

Financial statements

Statement of comprehensive income

for the year ended 31 December

	2025	2024
	AED000	AED000
Profit for the year	2,549,096	2,658,851
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	93,894	22,450
– fair value gains	125,481	28,931
– fair value (gains) transferred to the income statement on disposal	(3,980)	(2,835)
– expected credit losses recognised in income statement	(1,501)	(4,422)
– income taxes	(26,106)	776
Cash flow hedges	87,975	(46,759)
– fair value losses/(gains)	86,469	(163,383)
– fair value losses reclassified to the income statement	18,405	111,455
– income taxes	(16,899)	5,169
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit liability	90,208	(54,772)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	(5,154)	(14,583)
Other comprehensive income/(expense) for the year, net of tax	266,923	(93,664)
Total comprehensive income for the year	2,816,019	2,565,187

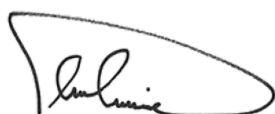
The accompanying notes on pages 16 to 67 form an integral part of these financial statements.

Financial statements

Statement of financial position at 31 December 2025

	Notes	2025 AED000	2024 AED000
Assets			
Cash		744,984	713,194
Trading assets	8	6,772,314	6,467,554
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		192,728	38,672
Derivatives	11	3,353,288	3,577,132
Loans and advances to banks	22	28,076,586	26,276,807
Loans and advances to customers	22	52,004,607	49,904,946
Reverse repurchase agreements – non-trading	22	34,879,477	29,761,567
Financial investments	12	38,213,010	31,203,765
Prepayments, accrued income and other assets	15	5,026,556	4,752,138
Intangible assets	16	826,668	775,306
Deferred tax assets	6	406,292	432,934
Total assets		170,496,510	153,904,015
Liabilities			
Deposits by banks	22	5,878,533	3,714,710
Customer accounts	17	113,488,075	102,997,556
Repurchase agreements – non-trading		14,498,341	10,796,349
Trading liabilities	18	2,446,698	2,834,721
Financial liabilities designated at fair value	19	2,533,801	3,145,132
Derivatives	11	2,940,341	2,919,179
Accruals, deferred income and other liabilities	20	7,649,041	6,988,276
Current tax liabilities		932,341	794,522
Provisions	21	273,762	517,947
Total liabilities		150,640,933	134,708,392
Head Office funds			
Allocated capital		4,495,255	4,495,255
Legal reserve		2,247,628	2,247,628
Other reserves		878,360	789,182
Unremitted profits		12,234,334	11,663,558
Total Head Office funds		19,855,577	19,195,623
Total liabilities and Head Office funds		170,496,510	153,904,015

The accompanying notes on pages 16 to 67 form an integral part of these financial statements.



Mohammed Al Marzouqi
Chief Executive Officer



Daniel Hankinson
Chief Financial Officer

Financial statements

Statement of cash flows

for the year ended 31 December

	2025 AED000	2024 AED000
Cash flows from operating activities		
Profit before tax	3,266,941	3,473,661
Adjustments for non-cash items		
Net (gain) from investing activities	(4,083)	(3,285)
Depreciation, amortisation and impairment	312,830	278,685
Share-based payment expense	46,996	35,643
Change in expected credit losses gross of recoveries and other credit impairment charges	563,105	591,709
Provisions including pensions	139,039	110,342
Other non-cash items included in profit before tax	(629,362)	(731,503)
Elimination of exchange differences ¹	(42,751)	64,397
Changes in operating assets and liabilities		
Change in other assets	(224,925)	(779,233)
Change in net trading securities and derivatives	(342,903)	(839,657)
Change in loans and advances to banks and customers	(1,974,112)	(3,891,810)
Change in reverse repurchase agreements – non-trading	(3,055,237)	3,269,890
Change in financial assets designated at fair value	(154,056)	(1,526)
Change in other liabilities	(73,482)	(84,594)
Change in deposits by banks and customer accounts	12,654,342	11,669,074
Change in financial liabilities designated at fair value	(616,485)	(761,327)
Change in repurchase agreements – non-trading	3,701,992	4,129,536
Tax paid	(596,390)	(535,022)
Net cash generated from operating activities	12,971,459	15,994,980
Cash flows from investing activities		
Purchase of financial investments	(24,400,259)	(25,394,618)
Proceeds from the sale and maturity of financial investments	17,883,259	23,469,131
Net cash flows from the purchase and sale of property, plant and equipment	(54,896)	(34,780)
Net investment in intangible assets	(280,120)	(222,030)
Net cash used in investing activities	(6,852,016)	(2,182,297)
Cash flows from financing activities		
Transfer of profits to Head Office	(2,127,979)	(1,700,000)
Net cash used in financing activities	(2,127,979)	(1,700,000)
Net increase in cash and cash equivalents	3,991,464	12,112,683
Cash and cash equivalents at 1 Jan	32,864,672	20,775,422
Exchange differences in respect of cash and cash equivalents ¹	42,812	(23,433)
Cash and cash equivalents at 31 Dec	36,898,948	32,864,672
Cash and cash equivalents comprise:		
– Cash	744,984	713,194
– Loans and advances to banks of one month or less	24,009,539	21,270,035
– Reverse repurchase agreement with banks of one month or less	13,056,734	10,994,061
– Cash collateral, net settlement accounts and items in course of collection from/transition to other banks	(1,012,062)	(578,682)
– Treasury bills, other bills and certificates of deposit of less than three months	99,753	466,064
Total cash and cash equivalents¹	36,898,948	32,864,672

1 Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.

The accompanying notes on pages 16 to 67 form an integral part of these financial statements.

Financial statements

Statement of changes in Head Office funds for the year ended 31 December

	Other reserves							Total Head Office funds AED000
	Allocated capital AED000	Legal reserve ¹ AED000	Financial assets at FVOCI reserves AED000	Cash flow hedging reserve AED000	Impairment reserve - General AED000	Unremitted profits AED000		
At 1 Jan 2025	4,495,255	2,247,628	(66,665)	(37,455)	893,302	11,663,558	19,195,623	
Profit for the year	—	—	—	—	—	2,549,096	2,549,096	
Other comprehensive income – net of tax	—	—	93,894	87,975	—	85,054	266,923	
– debt instruments at fair value through other comprehensive income	—	—	93,894	—	—	—	93,894	
– cash flow hedges	—	—	—	87,975	—	—	87,975	
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	—	—	—	(5,154)	(5,154)	
– remeasurement of defined benefit asset/liability	—	—	—	—	—	90,208	90,208	
Total comprehensive income for the year	—	—	93,894	87,975	—	2,634,150	2,816,019	
Transfer of profit to Head Office	—	—	—	—	—	(2,127,979)	(2,127,979)	
Transfer related to impairment reserve requirements ^{2,3}	—	—	—	—	(92,691)	92,691	—	
Other movements	—	—	—	—	—	(28,086)	(28,086)	
At 31 Dec 2025	4,495,255	2,247,628	27,229	50,520	800,611	12,234,334	19,855,577	
At 1 Jan 2024	4,495,255	2,247,628	(89,115)	9,304	1,011,335	10,653,998	18,328,405	
Profit for the year	—	—	—	—	—	2,658,851	2,658,851	
Other comprehensive income – net of tax	—	—	22,450	(46,759)	—	(69,355)	(93,664)	
– debt instruments at fair value through other comprehensive income	—	—	22,450	—	—	—	22,450	
– cash flow hedges	—	—	—	(46,759)	—	—	(46,759)	
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	—	—	—	(14,583)	(14,583)	
– remeasurement of defined benefit asset/liability	—	—	—	—	—	(54,772)	(54,772)	
Total comprehensive income for the year	—	—	22,450	(46,759)	—	2,589,496	2,565,187	
Transfer of profit to Head Office	—	—	—	—	—	(1,700,000)	(1,700,000)	
Transfer related to impairment reserve requirements ^{2,3}	—	—	—	—	(118,033)	118,033	—	
Other movements	—	—	—	—	—	2,031	2,031	
At 31 Dec 2024	4,495,255	2,247,628	(66,665)	(37,455)	893,302	11,663,558	19,195,623	

- In accordance with UAE Federal Law No. 32 of 2021 as amended, a minimum of 5% of the profit for the year is to be transferred to a non-distributable legal reserve. Such transfers may cease when the legal reserve becomes equal to 50% of the allocated capital. Since the legal reserve is equal to 50% of the Bank's allocated capital, profit was not appropriated to the legal reserve during the year (2024: Nil).
- During the year, in accordance with the Credit Risk Management Standards ('CRMS'), a general impairment reserve of AED 93 million was released to unremitted profits, ensuring compliance with the minimum impairment reserve – general requirement.
- For further details refer Note – Capital requirements under 'Additional information' on page 72.

The accompanying notes on pages 16 to 67 form an integral part of these financial statements.

Notes on the financial statements

1 Legal status and principal activities

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

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

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

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

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

2 Basis of preparation and material accounting policies

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

IFRS Accounting Standards adopted during the year ended 31 December 2025

There were no new standards, amendments to standards or interpretations that had a significant effect on these financial statements. Accounting policies have been applied consistently.

(b) Future accounting developments

Minor amendments to IFRSs Accounting Standards

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

Other amendments and new IFRS Accounting Standards

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

In May 2024, the IASB issued amendments to 'IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on, or after, 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The Bank does not expect any material impact from these amendments.

IFRS 18 'Presentation and Disclosure in Financial Statements'

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

While IFRS 18 will not change recognition criteria or measurement bases, it will have an impact on presenting information in the financial statements, in particular the income statement and to a lesser extent the cash flow statement. The Bank is currently evaluating impacts and ensuring data readiness is adequate in anticipation of implementation.

(c) Going concern

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

(d) Foreign currencies

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

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

(e) Critical estimates and judgements

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

(f) Segmental analysis

The Bank's Chief Operating Decision Maker ('CODM') is the UAE Operating Committee ('OPCO'). The OPCO supports the UAE Chief Executive Officer in the day-to-day management and is responsible for reviewing the performance of the Bank's reportable segments, allocating resources, and making strategic decisions. Segment information is reported in a manner consistent with the internal management reporting provided to OPCO and HBME Board.

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

Our business segments

Following the organisational announcement in October 2024, effective from 1 January 2025, the Bank's reporting segments under IFRS 8 'Operating Segments' comprise two businesses along with the Corporate Centre. These replace the Bank's previously reported operating segments up to 31 December 2024:

- Corporate and Institutional Banking ('CIB'): CIB is formed from the integration of the Bank's Commercial Banking business with Global Banking and Markets business; and
- International Wealth and Premier Banking ('IWPB'): IWPB comprises Premier banking, Private Bank, and wealth manufacturing businesses of Asset Management.

Corporate Centre comprises central stewardship costs that support our businesses.

Based on the reorganisation, the reporting segments information is aligned to the revised businesses and accordingly, comparative information has been re-presented to reflect the revised segment structure.

2.2 Summary of material accounting policies

(a) Income and expenses

Net Operating income

Interest income and expense

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

Non-interest income and expense

The Bank generates fee income from services provided over time, such as account service and card fees, or when the Bank delivers a specific transaction at the point in time such as broking services and import/export services of where fees are variable, for example certain fund management and performance fees, such fees are recognised when the associated uncertainties are resolved.

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

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

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

Dividend income is recognised when the right to receive payment is established.

Gains and Losses from financial instruments measured as at fair value through profit or loss includes the following:

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

(b) Valuation of financial instruments

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

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Bank manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS Accounting Standard offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 9, 'Fair values of financial instruments carried at fair value'.

Critical estimates and judgements

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

Judgements	Estimates
<ul style="list-style-type: none"> – An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5% of the instrument's valuation is driven by unobservable inputs. – 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). 	<ul style="list-style-type: none"> – Details on the Bank's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in Note 9.

(c) Financial instruments measured at amortised cost

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

The Bank may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be sold shortly after origination, the commitment to lend is recorded as a derivative. When the Bank intends to hold the loan, the loan commitment is generally not recognised but is subject to expected credit loss considerations.

Financial assets are reclassified only when the business model for their management changes. Such changes, which are expected to be infrequent, are determined by senior management as a result of external or internal changes and must be significant to operations and demonstrable to external parties. Reclassifications are applied prospectively from the first day of the first reporting period following the change of business model. Where a financial asset is reclassified out of the amortised cost measurement category and into a fair value through other comprehensive income measurement category, its fair value is measured at the date of reclassification. Any gain or loss arising from a difference between the previous amortised cost and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

Non-trading reverse repurchase, repurchase and similar agreements

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

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

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

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

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

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

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

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

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

(f) Derivatives

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

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

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

(g) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is recognised for Expected Credit Losses ('ECL') resulting from possible default events within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is recognised for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, and so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

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

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

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the

Notes on the financial statements

geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

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

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

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

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

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

► Further information about the 23-grade scale used for CRR can be found on page 53.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from internally developed statistical models, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due.

The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

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

Credit-impaired (stage 3)

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

If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

The Bank also considers relevant regulatory requirements, in the context of the alignment of those requirements with IFRS, in the estimation of ECL in respect of Stage 3 exposures.

Write-off

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

Forbearance

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

Performing forbore loans are initially stage 2 and remain classified as forbore until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either

Notes on the financial statements

stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

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

Loan modifications other than forbore loans

Loan modifications that are not identified as forbore are considered to be commercial restructurings. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument. Mandatory and general offer loan modifications that are not borrower specific, for example market-wide customer relief programmes generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

Purchased or originated credit impaired (POCI)

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

Movement between stages

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

Measurement of ECL

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

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

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

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

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

Model	Regulatory capital	IFRS 9
PD	<ul style="list-style-type: none"> - Represents long-run average PD throughout a full economic cycle - Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy) - May be subject to a sovereign cap 	<ul style="list-style-type: none"> - Represents current portfolio quality and performance, adjusted for the impact of multiple forward-looking macroeconomic scenarios - Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy)
EAD	<ul style="list-style-type: none"> - Cannot be lower than current balance - Based on regulatory conversion factors 	<ul style="list-style-type: none"> - Amortisation captured for term products - Future drawdown captured for revolving products - Corporate EADs are calculated using conversions factors that are estimated by a corporate EAD model. The corporate EAD model is based on historical observed data and adjusted for the impact of multiple forward-looking macroeconomic scenarios - Banks and Sovereign exposures are based on regulatory conversion factors (same as regulatory capital conversion factors)
LGD	<ul style="list-style-type: none"> - Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) - Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. - Discounted using appropriate index (minimum 9%) - All collection costs included 	<ul style="list-style-type: none"> - LGD based on historical observed loss data and adjusted for the impact of multiple forward-looking macroeconomic scenarios - Floors are applied, (minimum 1% LGD for Cash and Sovereign guarantee covered exposures and minimum 5% LGD for other exposures) - Discounted using the original effective interest rate - Only costs associated with selling collateral and certain third party costs are included
Other		<ul style="list-style-type: none"> - Discounted back from point of default to balance sheet date

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

Notes on the financial statements

The ECL for wholesale stage 3 is determined primarily on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realization, less costs for obtaining and selling the collateral.

The cash flows are discounted at the original effective interest rate. For significant cases, cash flows under up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by the Bank and judgement in relation to the likelihood of the work-out strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the Bank may use a LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

Period over which ECL is measured

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

Forward-looking economic inputs

The Bank applies multiple forward-looking global economic scenarios determined with reference to consensus forecasts and distributional estimates of the entire range of economic outcomes. In certain economic environments, additional analysis may be necessary and may result in the use of additional scenarios, adjustments or weighting changes. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 45.

Critical estimates and judgements

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

Judgements	Estimates
<ul style="list-style-type: none">– Defining what is considered to be a significant increase in credit risk.– Determining the lifetime and point of initial recognition of overdrafts and credit cards.– Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.– Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.	<ul style="list-style-type: none">– The sections on pages 45 to 48, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(h) Employee compensation and benefits

Share-based payments

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

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

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

Post-employment benefit plans

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

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

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

Notes on the financial statements

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

Critical estimates and judgements

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

Judgements	Estimates
	<ul style="list-style-type: none">– A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI.– The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries.– Key assumptions used in calculating the defined benefit pension obligation for the principal plan and the sensitivity of the calculation to different assumptions are described in Note 4.

(i) Tax

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

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

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

In assessing the probability and sufficiency of future taxable profit, management considers the availability of evidence to support the recognition of deferred tax assets, taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. Management also considers the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations. The Bank has applied the exception available under IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

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

Critical estimates and judgements

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

Judgements	Estimates
<ul style="list-style-type: none">– Specific judgements supporting deferred tax assets are described in Note 6.	<ul style="list-style-type: none">– The recognition of deferred tax assets is sensitive to estimates of future cash flows projected for periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of cash flows thereafter, on which forecasts of future taxable profit are based, and which affect the expected recovery periods and the pattern of utilisation of tax losses and tax credits. See Note 6 for further detail.

(j) Provisions, contingent liabilities and guarantees

Provisions

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

Critical estimates and judgements

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

Judgements	Estimates
<ul style="list-style-type: none">– Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations.– Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	<ul style="list-style-type: none">– Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Notes on the financial statements

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, they are measured at the higher of the amount determined in accordance with IFRS 9 for ECL and the amount initially recognised less, where appropriate, any cumulative income recognised in accordance with IFRS 15.

(k) Joint arrangements

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

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

(l) Impairment of non-financial assets

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

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

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

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

3 Net fee income

	2025 AED000	2024 AED000
Credit facilities	76,359	121,890
Remittances	148,117	134,376
Cards	743,795	619,860
Global custody	78,926	60,351
Account services	110,415	84,745
Import/exports	139,678	144,712
Insurance agency	49,789	53,033
Corporate/project finance	114,209	123,774
Performance/tender bonds	156,679	153,079
Unit trusts	194,354	123,008
Others ¹	414,820	367,137
Total Fee Income	2,227,141	1,985,965
Fee Expense	(686,614)	(608,949)
Net Fee Income	1,540,527	1,377,016

1 Others include related party transaction fee of AED 262 million (2024: AED 198 million). Refer Note 28 for further details on Related Party Transactions.

Net fee income includes AED 1,965 million (2024: AED 1,788 million) of fees earned on financial assets that are not at fair value through profit or loss, other than amounts included in determining the effective interest rate, AED 584 million (2024: AED 466 million) of fees payable on financial liabilities that are not at fair value through profit or loss, other than amounts included in determining the effective interest rate and AED 79 million (2024: AED 60 million) of fees earned on trust and other fiduciary activities.

4 Employee compensation and benefits

	2025 AED000	2024 AED000
Wages and salaries	1,757,752	1,612,466
Social security costs	30,062	25,529
Post-employment benefits	84,494	84,903
Year ended 31 Dec	1,872,308	1,722,898

Notes on the financial statements

Share-based payments

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

	2025 AED000	2024 AED000
Restricted share awards and other plans	46,996	35,643
Year ended 31 Dec	46,996	35,643

Defined benefit pension plans

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

	2025 AED000	2024 AED000
At 1 Jan	672,092	597,742
Current service cost	62,974	60,220
Interest cost on the net defined benefit liability	21,520	25,237
Re-measurement effects recognised in other comprehensive income – actuarial gains	(90,208)	54,772
Other movements	1,379	(307)
Benefits paid	(74,979)	(65,572)
At 31 Dec	592,778	672,092

1 There are no plan assets under defined benefit pension plans as at 31 Dec 2025 (31 Dec 2024: nil).

2 These are payable to employees immediately after resignation.

Post-employment defined benefit plans' principal actuarial financial assumptions

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

Key actuarial assumptions for the principal plan

	Discount rate %	Rate of pay increase %	Combined rate of resignation and employment termination %
United Arab Emirates			
At 31 Dec 2025	3.6	3.8	12.1
At 31 Dec 2024	3.4	6.0	9.9

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

The effect of changes in key assumptions on the principal plan

	United Arab Emirates	
	2025 AED000	2024 AED000
Discount rate		
Change in scheme obligation at year end from a 25bps increase	(6,904)	(9,829)
Change in scheme obligation at year end from a 25bps decrease	7,071	10,099
Change in following year scheme cost from a 25bps increase	(429)	(182)
Change in following year scheme cost from a 25bps decrease	438	194
Rate of pay increase		
Change in scheme obligation at year end from a 25bps increase	7,404	10,179
Change in scheme obligation at year end from a 25bps decrease	(7,266)	(9,963)
Change in following year scheme cost from a 25bps increase	1,139	1,594
Change in following year scheme cost from a 25bps decrease	(1,115)	(1,558)

5 Auditors' remuneration

Fees payable by the Bank

	2025 AED000	2024 AED000
Fees for HSBC Bank Middle East Limited – UAE Operations statutory audit ¹	5,025	1,194
– relating to current year	5,025	1,194
Fees for other services provided to the Bank	1,169	946
– audit-related assurance services ²	733	882
– other assurance services	436	64
Year ended 31 Dec	6,194	2,140

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

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

No fees were payable by the Bank to principal auditor for internal audit services and services related to litigation, recruitment and remuneration.

6 Tax

Tax expense

	2025 AED000	2024 AED000
Current tax	734,209	828,838
– for this year	802,346	811,709
– adjustments in respect of prior years	(68,137)	17,129
Deferred tax	(16,364)	(14,028)
– origination and reversal of temporary differences	(52,316)	(5,578)
– adjustments in respect of prior years	35,952	(8,450)
Year ended 31 Dec	717,845	814,810

Tax reconciliation

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

	2025		2024	
	AED000	%	AED000	%
Profit/(loss) before tax	3,266,941		3,473,661	
Tax expense				
Taxation at UAE corporate tax rate of 20% (2024: 20%)	653,388	20.0	694,732	20.0
Adjustments in respect of prior period liabilities	(32,185)	(1.0)	8,678	0.2
Change in tax rates or laws	74,688	2.3	72,647	2.1
Permanent disallowables	8,890	0.3	15,779	0.5
Local taxes and overseas withholding taxes	12,739	0.4	22,386	0.6
Other items	325	—	588	—
Overall tax expense	717,845	22.0	814,810	23.5

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

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

Movement of deferred tax assets and liabilities

	Loan impairment allowances	Other	Total
	AED000	AED000	AED000
At 1 Jan 2025	354,407	78,527	432,934
Income statement	67,645	(51,281)	16,364
Other comprehensive income	—	(43,006)	(43,006)
At 31 Dec 2025	422,052	(15,760)	406,292
At 1 Jan 2024	351,585	61,402	412,987
Income statement	2,822	11,207	14,029
Other comprehensive income	—	5,918	5,918
At 31 Dec 2024	354,407	78,527	432,934

Unrecognised deferred tax

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was Nil (2024: Nil).

Other information

UAE corporate tax regime

Federal Corporate Income tax ('FCIT') Law No. 47 of 2022 on the Taxation of Corporations and Businesses was enacted in the UAE effective 1 January 2024 for the Bank. Under the FCIT tax regime, the Bank is subject to a 9% Corporate Income tax ('CIT') on its taxable income, subject to relevant tax reliefs and credit as available. The Bank is already subject to a 20% CIT on its Banking operations under the tax regimes of the individual Emirates.

Tax law was amended by the Emirates of Dubai, Sharjah, Ras Al Khaimah and Fujairah to provide for a tax credit for the FCIT. The Emirate of Abu Dhabi is yet to issue their amended Tax Law to provide for a similar form of tax credit against the FCIT. In the absence of an official publication by the Emirate of Abu Dhabi on the reporting date, the Bank has provided for tax on the taxable profits of the Emirate of Abu Dhabi at a rate of 29%.

Global Minimum Tax regime

In July 2023, legislation was enacted in the UK, the jurisdiction of the Bank's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' Global Minimum Tax model rules (the 'model rules') of the Organisation for Economic Cooperation and Development ('OECD')'s Inclusive Framework on Base Erosion and Profit Shifting ('BEPS'). The rules took effect from 1 January 2024. During 2025, Qualified Domestic Minimum top-up tax ('QDMTT') was enacted in a number of jurisdictions in which the Group operates under the same framework but with reference to local tax authorities.

Notes on the financial statements

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

Legislation has been substantively enacted in the UAE to implement a QDMTT effective 1 January 2025.

7 Segmental analysis

Profit/(loss) for the year

	2025			
	International Wealth and Premier Banking AED000	Corporate and Institutional Banking AED000	Corporate Centre AED000	Total AED000
Net interest income	1,954,795	2,405,469	136,715	4,496,979
Net fee income	522,314	1,019,893	(1,680)	1,540,527
Net income from financial instruments held for trading or managed on a fair value basis	229,010	856,012	(154,190)	930,832
Other income	99,355	185,266	268,183	552,804
Net operating income before change in expected credit losses and other credit impairment charges	2,805,474	4,466,640	249,028	7,521,142
– external	2,167,269	5,771,624	(417,751)	7,521,142
– inter-segment	638,205	(1,304,984)	666,779	—
Change in expected credit losses and other credit impairment charges	(96,348)	(398,223)	(7)	(494,578)
Net operating income	2,709,126	4,068,417	249,021	7,026,564
Total operating expenses	(1,552,578)	(1,828,767)	(378,278)	(3,759,623)
Profit/(loss) before tax	1,156,548	2,239,650	(129,257)	3,266,941

	2024			
	International Wealth and Premier Banking AED000	Corporate and Institutional Banking AED000	Corporate Centre AED000	Total AED000
Net interest income	2,158,605	2,456,528	(64,610)	4,550,523
Net fee income	438,368	939,994	(1,346)	1,377,016
Net income from financial instruments held for trading or managed on a fair value basis	189,241	489,063	215,124	893,428
Other income	96,839	338,728	16,933	452,500
Net operating income before change in expected credit losses and other credit impairment charges	2,883,053	4,224,313	166,101	7,273,467
– external	2,056,117	5,728,524	(511,174)	7,273,467
– inter-segment	826,936	(1,504,211)	677,275	—
Change in expected credit losses and other credit impairment charges	(75,027)	(467,540)	—	(542,567)
Net operating income	2,808,026	3,756,773	166,101	6,730,900
Total operating expenses	(1,356,317)	(1,604,045)	(296,877)	(3,257,239)
Profit/(loss) before tax	1,451,709	2,152,728	(130,776)	3,473,661

Statement of financial position

	2025			
	International Wealth and Premier Banking AED000	Corporate and Institutional Banking AED000	Corporate Centre AED000	Total AED000
Loans and advances to customers (net)	14,759,243	37,245,364	—	52,004,607
Total assets	49,787,276	113,446,345	7,262,889	170,496,510
Customer accounts	55,345,164	58,142,911	—	113,488,075
Total liabilities	58,500,282	87,601,890	4,538,761	150,640,933

	2024			
	International Wealth and Premier Banking AED000	Corporate and Institutional Banking AED000	Corporate Centre AED000	Total AED000
Loans and advances to customers (net)	12,788,232	37,116,714	—	49,904,946
Total assets	40,721,713	108,606,753	4,575,549	153,904,015
Customer accounts	50,431,812	52,565,744	—	102,997,556
Total liabilities	52,941,469	78,262,963	3,503,960	134,708,392

8 Trading assets

	2025 AED000	2024 AED000
Trading assets:		
– not subject to repledge or resale by counterparties	6,772,314	6,467,554
At 31 Dec	6,772,314	6,467,554
Debt securities	787,750	1,159,839
Treasury and other eligible bills	730,136	822,887
Trading securities	1,517,886	1,982,726
Trading reverse repurchase agreements	5,254,428	4,484,828
At 31 Dec	6,772,314	6,467,554

9 Fair values of financial instruments carried at fair value

Control framework

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

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

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

The majority of financial instruments measured at fair value are in CIB, and their fair value governance structure comprises its Finance function, Valuation Committee. Finance is responsible for establishing procedures governing valuation and ensuring fair values are in compliance with accounting standards. The fair values are reviewed by the Valuation Committee, which consist of independent support functions.

Financial liabilities measured at fair value

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

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

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

Fair value hierarchy

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

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

Notes on the financial statements

Financial instruments carried at fair value and bases of valuation

	2025				2024			
	Level 1 AED000	Level 2 AED000	Level 3 AED000	Total AED000	Level 1 AED000	Level 2 AED000	Level 3 AED000	Total AED000
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	1,133,675	5,405,881	232,758	6,772,314	1,467,347	4,529,680	470,527	6,467,554
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	18,283	174,445	—	192,728	38,672	—	—	38,672
Derivatives	—	3,052,776	300,512	3,353,288	—	3,459,494	117,638	3,577,132
Financial investments	20,929,358	1,315,216	—	22,244,574	18,323,804	808,447	—	19,132,251
Liabilities								
Trading liabilities	494,216	1,952,482	—	2,446,698	524,366	2,310,355	—	2,834,721
Financial liabilities designated at fair value	—	2,115,034	418,767	2,533,801	—	3,145,132	—	3,145,132
Derivatives	—	2,667,523	272,818	2,940,341	—	2,828,247	90,932	2,919,179

There were no material transfers between Level 1 and Level 2 during the reporting period.

The balance as at 31 December 2025 under financial assets designated at fair value through profit or loss is AED 18 million (2024: AED 39 million).

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers are primarily attributable to changes in price transparency and in the assessment of observability.

Fair value valuation bases

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

	Assets			Liabilities		
	Trading Assets AED000	Derivatives AED000	Total AED000	Designated at fair value AED000	Derivatives AED000	Total AED000
Derivatives	—	300,512	300,512	—	272,818	272,818
Other portfolios	232,758	—	232,758	418,767	—	418,767
At 31 Dec 2025	232,758	300,512	533,270	418,767	272,818	691,585
Derivatives	—	117,638	117,638	—	90,932	90,932
Other portfolios	470,527	—	470,527	—	—	—
At 31 Dec 2024	470,527	117,638	588,165	—	90,932	90,932

Derivatives

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

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

Movement in Level 3 financial instruments

	Assets			Liabilities	
	Financial Investments AED000	Trading Assets AED000	Derivatives AED000	Designated at fair value AED000	Derivatives AED000
At 1 Jan 2025	—	470,527	117,638	—	90,932
Total gains/(losses) recognised in profit or loss	—	(2,835)	86,419	—	12,774
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	(2,835)	86,419	—	12,774
Total gains/(losses) recognised in other comprehensive income	(144)	—	—	—	—
– financial investments: fair value gains/(losses)	(144)	—	—	—	—
Settlements	—	(224,783)	146,004	418,767	177,709
Transfers out	(551,565)	(10,151)	(51,852)	—	(28,664)
Transfers in	551,709	—	2,303	—	20,067
At 31 Dec 2025	—	232,758	300,512	418,767	272,818

Notes on the financial statements

Movement in Level 3 financial instruments (continued)

	Assets			Liabilities	
	Financial Investments	Trading Assets	Derivatives	Designated at fair value	Derivatives
	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2024	538,945	1,414,954	166,830	—	58,309
Total gains/(losses) recognised in profit or loss	—	(10,461)	28,619	—	83,260
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	(10,461)	28,619	—	83,260
Total gains/(losses) recognised in other comprehensive income	7,618	—	—	—	—
– financial investments: fair value gains/(losses)	7,618	—	—	—	—
Settlements	—	(933,966)	(50,183)	(340,314)	(41,215)
Transfers out	(546,563)	—	(27,628)	—	(9,422)
Transfers in	—	—	—	340,314	—
At 31 Dec 2024	—	470,527	117,638	—	90,932

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 Dec 2025				At 31 Dec 2024			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Derivatives and trading assets ¹	31,991	(31,991)	—	—	57,038	(57,038)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value through profit or loss	539	(539)	—	—	—	—	—	—
Total	32,530	(32,530)	—	—	57,038	(57,038)	—	—

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

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

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

	At 31 Dec 2025				At 31 Dec 2024			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Derivatives	31,740	(31,740)	—	—	55,349	(55,349)	—	—
Other portfolios	790	(790)	—	—	1,689	(1,689)	—	—
Total	32,530	(32,530)	—	—	57,038	(57,038)	—	—

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value			Key unobservable inputs	2025	
	Assets	Liabilities	Key valuation techniques		Full range of inputs	
	AED000	AED000			Lower	Higher
Derivatives	300,512	272,818				
- interest rate derivatives	101,769	100,043				
other interest rate derivatives	101,769	100,043				
- Foreign exchange derivatives	198,743	172,775				
Foreign exchange options	150,077	150,077	Model – Option model	Foreign exchange volatility	4%	22%
other foreign exchange derivatives	48,666	22,698				
Other portfolios ¹	232,758	418,767				
At 31 Dec 2025	533,270	691,585				

1 'Other portfolios' includes a range of smaller asset holdings.

The range of values above shows the highest and lowest unobservable inputs that have been used to value significant Level 3 exposures and reflects the diversity of the underlying financial instruments in scope and subsequent differentiation in pricing.

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable and are estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the group portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, group trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the impact of changing market variables upon the group portfolio will depend upon the Bank's net risk position in respect of each variable.

10 Fair values of financial instruments not carried at fair value

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

	Fair value				Total AED000
	Carrying amount AED000	Quoted market price Level 1 AED000	Observable inputs Level 2 AED000	Significant unobservable inputs Level 3 AED000	
At 31 Dec 2025					
Assets					
Loans and advances to banks	28,076,586	—	28,076,544	—	28,076,544
Loans and advances to customers	52,004,607	—	—	51,050,092	51,050,092
Reverse repurchase agreements – non-trading	34,879,477	—	34,971,781	—	34,971,781
Financial Investments	15,968,436	12,819,710	3,364,123	—	16,183,833
Liabilities					
Deposits by banks	5,878,533	—	5,871,706	—	5,871,706
Customer accounts	113,488,075	—	113,937,447	—	113,937,447
Repurchase agreements – non-trading	14,498,341	—	14,498,370	—	14,498,370
At 31 Dec 2024					
Assets					
Loans and advances to banks	26,276,807	—	26,275,841	—	26,275,841
Loans and advances to customers	49,904,946	—	—	48,593,327	48,593,327
Reverse repurchase agreements – non-trading	29,761,567	—	29,874,724	—	29,874,724
Financial Investments	12,071,514	9,408,869	2,591,829	—	12,000,698
Liabilities					
Deposits by banks	3,714,710	—	3,721,280	—	3,721,280
Customer accounts	102,997,556	—	102,802,870	—	102,802,870
Repurchase agreements – non-trading	10,796,349	—	10,798,637	—	10,798,637

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

Valuation

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

Loans and advances to banks and customers

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

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

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

Financial investments

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

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

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

Repurchase and reverse repurchase agreements – non-trading

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

11 Derivatives

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

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading AED000	Hedging AED000	Trading AED000	Hedging AED000	Total AED000	Trading AED000	Hedging AED000	Total AED000
Foreign exchange	764,215,436	5,233,975	2,127,756	3,440	2,131,196	2,044,953	4,991	2,049,944
Interest rate	111,184,799	16,921,033	1,026,788	192,358	1,219,146	860,797	16,903	877,700
Credit	1,379,024	—	694	—	694	10,445	—	10,445
Commodity and other	35,252	—	2,252	—	2,252	2,252	—	2,252
At 31 Dec 2025	876,814,511	22,155,008	3,157,490	195,798	3,353,288	2,918,447	21,894	2,940,341
Foreign exchange	399,065,887	6,703,175	1,734,903	12,088	1,746,991	1,469,268	2,793	1,472,061
Interest rate	113,067,822	17,010,783	1,569,154	260,950	1,830,104	1,403,426	32,598	1,436,024
Credit	1,120,113	—	37	—	37	11,094	—	11,094
Commodity and other	—	—	—	—	—	—	—	—
At 31 Dec 2024	513,253,822	23,713,958	3,304,094	273,038	3,577,132	2,883,788	35,391	2,919,179

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

Use of derivatives

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

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

Trading derivatives

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

Hedge accounting derivatives

Hedged risk components

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

Fair value hedges

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

Hedging instrument by hedged risk

	Hedging Instrument				Change in fair value ² AED000
	Notional amount ¹ AED000	Carrying amount		Balance sheet presentation	
Hedged Risk		Assets AED000	Liabilities AED000		
Interest rate	7,278,308	58,662	12,505	Derivatives	(111,005)
At 31 Dec 2025	7,278,308	58,662	12,505		(111,005)
Interest rate	6,283,583	161,961	620	Derivatives	23,373
At 31 Dec 2024	6,283,583	161,961	620		23,373

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

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

Notes on the financial statements

Hedged item by hedged risk

Hedged Risk	Hedged Item					Change in fair value ¹ AED000	Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount		Balance sheet presentation		Recognised in profit and loss AED000	Profit and loss presentation
	Assets AED000	Liabilities AED000	Assets AED000	Liabilities AED000				
Interest rate	7,278,308	—	57,960	—	Financial investments	109,778	1,544	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	36,839	—	(924)	—	Loans and advances to customers	1,357		
Interest rate	—	—	—	—	Customer accounts	1,414		
At 31 Dec 2025	7,315,147	—	57,036	—		112,549	1,544	
Interest rate	5,433,195	—	(53,245)	—	Financial investments	(29,066)	(1,683)	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	48,353	—	(2,340)	—	Loans and advances to customers	5,426		
Interest rate	—	762,121	—	1,416	Customer accounts	(1,416)		
At 31 Dec 2024	5,481,548	762,121	(55,585)	1,416		(25,056)	(1,683)	

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

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

Cash flow hedges

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

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

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

Hedging instrument by hedged risk

Hedged Risk	Hedging Instrument			Balance sheet presentation	Change in fair value ² AED000	Change in fair value ³ AED000	Recognised in profit and loss AED000	Profit and loss presentation
	Notional amount ¹ AED000	Carrying amount						
	Assets AED000	Liabilities AED000						
Foreign currency	5,233,975	3,440	4,991	Derivatives	(1,379)	(1,379)	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	9,642,726	133,696	4,398	Derivatives	87,848	88,944	1,096	
At 31 Dec 2025	14,876,701	137,136	9,389		86,469	87,565	1,096	
Foreign currency	6,703,175	12,088	2,793	Derivatives	911	812	(99)	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	10,727,200	98,989	31,978	Derivatives	(164,294)	(164,698)	(404)	
At 31 Dec 2024	17,430,375	111,077	34,771		(163,383)	(163,886)	(503)	

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

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

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

12 Financial investments

Carrying amount of financial investments

	2025 AED000	2024 AED000
Financial investments measured at fair value through other comprehensive income	22,244,574	19,132,251
– Treasury and other eligible bills	11,268,315	7,633,348
– Debt securities	10,976,259	11,498,903
Debt instruments measured at amortised cost	15,968,436	12,071,514
– Treasury and other eligible bills	–	–
– Debt securities	15,968,436	12,071,514
At 31 Dec	38,213,010	31,203,765

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

Assets charged as security for liabilities

The fair value of assets pledged as collateral but that do not qualify for derecognition is AED 2,208 million (2024: AED 1,276 million). These transactions are conducted under terms that are usual and customary to repurchase agreements.

Financial assets pledged as collateral

	2025 AED000	2024 AED000
Debt securities	2,208,427	1,275,676
At 31 Dec	2,208,427	1,275,676

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

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default is AED 43,161 million (2024: AED 37,328 million). The fair value of any such collateral sold or repledged is AED 13,394 million (2024: AED 11,766 million). The Bank is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

14 Joint arrangement

	Country of incorporation	Principal activity	The Bank's interest in equity capital	2025	2024
				Issued equity capital	Issued equity capital
HSBC Middle East Leasing Partnership – (Joint operation)	Dubai, UAE	Leasing	15.00%	US\$95 million fully paid	US\$95 million fully paid

The results of the joint arrangement have been included on proportionate basis. During the year, there has been no change in issued equity capital.

15 Prepayments, accrued income and other assets

	2025 AED000	2024 AED000
Prepayments and accrued income	1,679,437	1,499,776
Items in course of collection from other banks	200,543	35,406
Endorsements and acceptances	1,862,111	2,011,886
Other accounts	427,363	341,195
Property, plant and equipment ¹	857,102	863,875
At 31 Dec	5,026,556	4,752,138

1 As at 31 December 2025, net book value of HSBC Tower was AED 720 million (2024: AED 753 million) and depreciation charged during the year was AED 26 million (2024: AED33 million).

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

Endorsements and acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability of the Bank and is therefore recognised as a financial liability with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Notes on the financial statements

16 Intangible assets

Included within intangible assets is internally generated software with a net carrying value of AED 827 million (2024: AED 775 million).

During the year, capitalisation of internally generated software was AED 295 million (2024: AED 222 million), amortisation and impairment was AED 229 million (2024: AED 200 million).

17 Customer Accounts

	2025 AED000	2024 AED000
Current account	75,350,415	67,765,282
Saving account	12,070,220	10,966,010
Fixed deposits	25,937,462	24,266,200
Others	129,978	64
At 31 Dec	113,488,075	102,997,556

18 Trading liabilities

	2025 AED000	2024 AED000
Trading repurchase agreements	1,820,468	2,258,274
Net short positions in securities	626,230	571,416
Others	–	5,031
At 31 Dec	2,446,698	2,834,721

19 Financial liabilities designated at fair value

	2025 AED000	2024 AED000
Deposits by banks and customer accounts	418,767	2,552,038
Debt securities in issue	2,115,034	593,094
Total	2,533,801	3,145,132

At 31 December 2025, the accumulated change in fair value attributable to changes in credit risk was a loss of AED 5 million (2024: nil). As at 31 December 2025, the difference between the carrying amount and the amount contractually required to be paid at maturity was AED 117 million (2024: AED 13 million).

20 Accruals, deferred income and other liabilities

	2025 AED000	2024 AED000
Accruals and deferred income	1,219,341	1,312,999
Items in course of transmission to other banks	774,224	646,963
Share-based payments liability to HSBC Holdings plc	88,727	69,953
Endorsements and acceptances	1,864,890	2,013,562
Employee benefit liabilities (Note 4)	592,778	672,092
Margin deposits	840,761	740,490
Transitory accounts	166,729	57,884
Other liabilities	2,101,591	1,474,333
At 31 Dec	7,649,041	6,988,276

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

21 Provisions

	Restructuring costs	Contractual commitments ¹	Legal proceedings and regulatory matters	Other provisions	Total
	AED000	AED000	AED000	AED000	AED000
At 1 Jan 2025	16,675	494,399	—	6,873	517,947
Additions	54,252	—	—	11,753	66,005
Amounts utilised	(43,547)	—	—	(11,741)	(55,288)
Unused amounts reversed	(10,780)	—	—	(680)	(11,460)
Net change in expected credit loss provision	—	(243,439)	—	—	(243,439)
Exchange and other movements	—	—	—	(3)	(3)
At 31 Dec 2025	16,600	250,960	—	6,202	273,762
At 1 Jan 2024	29,427	37,245	—	7	66,679
Additions	26,021	—	48,715	6,873	81,609
Amounts utilised	(30,771)	—	—	—	(30,771)
Unused amounts reversed	(8,002)	—	(48,715)	(7)	(56,724)
Net change in expected credit loss provision	—	457,154	—	—	457,154
At 31 Dec 2024	16,675	494,399	—	6,873	517,947

1 Provision for contractual commitments include the expected credit loss in relation to off-balance sheet financial guarantee contracts and commitments where HSBC has become party to an irrevocable commitment, as defined under IFRS 9 'Financial Instruments'; and provisions for performance and other guarantee contracts.

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

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

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

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

	At 31 Dec 2025				Total
	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	
	AED000	AED000	AED000	AED000	AED000
Financial assets					
Trading assets	5,411,787	231,361	1,129,166	—	6,772,314
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	104,236	88,492	—	—	192,728
Derivatives	3,180,745	29,849	139,175	3,519	3,353,288
Loans and advances to banks ¹	25,816,750	2,089,065	170,771	—	28,076,586
Loans and advances to customers	16,657,177	10,089,447	16,001,406	9,256,577	52,004,607
Reverse repurchase agreements – non-trading	18,581,158	8,321,380	7,976,939	—	34,879,477
Financial investments	8,071,572	5,089,722	23,596,415	1,455,301	38,213,010
Other financial assets	3,280,338	469,871	—	—	3,750,209
Total	81,103,763	26,409,187	49,013,872	10,715,397	167,242,219
Non-Financial assets	—	—	—	2,308,764	2,308,764
Financial liabilities					
Deposits by banks	5,768,358	110,175	—	—	5,878,533
Customer accounts	105,991,056	7,127,562	369,457	—	113,488,075
Repurchase agreements – non-trading	6,244,790	2,964,972	5,288,579	—	14,498,341
Trading liabilities	2,077,360	—	369,338	—	2,446,698
Financial liabilities designated at fair value	46,499	1,035,508	1,451,794	—	2,533,801
Derivatives	2,919,433	1,497	16,374	3,037	2,940,341
Other financial liabilities	5,025,525	480,163	35,469	15,641	5,556,798
Total	128,073,021	11,719,877	7,531,011	18,678	147,342,587
Non-Financial liabilities	—	—	—	2,524,122	2,524,122
Loan and other credit-related commitments	64,757,038	—	—	—	64,757,038
Financial guarantees and similar contracts	47,903,382	—	—	—	47,903,382

Notes on the financial statements

Maturity analysis of assets and liabilities (continued)

	At 31 Dec 2024				
	Due within 3 months AED000	Due between 3 and 12 months AED000	Due between 1 and 5 years AED000	Due after 5 years AED000	Total AED000
Financial assets					
Trading assets	5,624,844	187,049	655,661	—	6,467,554
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	20,154	—	18,518	—	38,672
Derivatives	3,313,047	31,757	212,411	19,917	3,577,132
Loans and advances to banks ¹	22,905,113	3,112,892	258,802	—	26,276,807
Loans and advances to customers	13,990,331	9,059,587	18,547,366	8,307,662	49,904,946
Reverse repurchase agreements – non-trading	19,945,806	835,375	8,980,386	—	29,761,567
Financial investments	5,427,489	3,846,484	20,580,099	1,349,693	31,203,765
Other financial assets	3,218,824	465,512	—	—	3,684,336
Total	74,445,608	17,538,656	49,253,243	9,677,272	150,914,779
Non-Financial assets	—	—	—	2,240,632	2,240,632
Financial liabilities					
Deposits by banks	2,410,972	1,303,738	—	—	3,714,710
Customer accounts	93,614,129	8,219,432	1,163,995	—	102,997,556
Repurchase agreements – non-trading	5,641,875	3,211,593	1,942,881	—	10,796,349
Trading liabilities	1,472,640	—	1,362,081	—	2,834,721
Financial liabilities designated at fair value	2,117,762	608,887	418,483	—	3,145,132
Derivatives	2,883,999	3,180	31,641	359	2,919,179
Other financial liabilities	5,021,954	474,966	40,334	7,339	5,544,593
Total	113,163,331	13,821,796	4,959,415	7,698	131,952,240
Non-Financial liabilities	—	—	—	2,110,156	2,110,156
Loan and other credit-related commitments	61,389,752	—	—	—	61,389,752
Financial guarantees and similar contracts	44,042,974	—	—	—	44,042,974

1 Includes deposits amounting to AED 15,823 million (2024: AED 7,446 million) at Central Bank which are subject to certain restrictions.

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

	On demand AED000	Due within 3 months AED000	Due between 3 and 12 months AED000	Due between 1 and 5 years AED000	Due after 5 years AED000
Deposits by banks	4,915,307	865,856	111,458	—	—
Customer accounts	98,436,116	7,680,007	7,224,512	383,372	—
Repurchase agreements – non-trading	5,411,539	962,328	3,216,851	5,563,514	—
Trading liabilities	2,446,698	—	—	—	—
Financial liabilities designated at fair value	8,351	63,203	1,088,365	1,491,210	—
Derivatives	2,919,434	—	1,497	16,374	3,037
Other financial liabilities	4,762,257	644,174	482,089	41,938	19,191
Total	118,899,702	10,215,568	12,124,772	7,496,408	22,228
Loan and other credit-related commitments	64,757,038	—	—	—	—
Financial guarantees and similar contracts	47,903,382	—	—	—	—
At 31 Dec 2025	231,560,122	10,215,568	12,124,772	7,496,408	22,228
Deposits by banks	2,416,332	5,929	1,321,524	—	—
Customer accounts	87,379,264	6,398,800	8,371,571	1,207,807	—
Repurchase agreements – non-trading	3,110,084	2,654,029	3,345,774	2,050,707	—
Trading liabilities	2,834,721	—	—	—	—
Financial liabilities designated at fair value	630,284	1,496,168	611,075	420,726	—
Derivatives	2,884,001	—	3,180	31,641	359
Other financial liabilities	4,085,649	1,011,280	476,658	45,554	10,425
Total	103,340,335	11,566,206	14,129,782	3,756,435	10,784
Loan and other credit-related commitments	61,389,752	—	—	—	—
Financial guarantees and similar contracts	44,042,974	—	—	—	—
At 31 Dec 2024	208,773,061	11,566,206	14,129,782	3,756,435	10,784

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

► Further discussion of the Bank's liquidity and funding management can be found in Note 24 'Risk management'.

23 Offsetting of financial assets and financial liabilities

In the offsetting of financial assets and financial liabilities, the net amount is reported in the balance sheet when the offset criteria are met. This is achieved when there is a legally enforceable right to offset the recognised amounts and there is either an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

In the following table, 'the 'Amounts not set off in the balance sheet' include transactions where:

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

Amounts not subject to enforceable master netting agreements' include contracts executed in jurisdictions where the rights of set off may not be upheld under the local bankruptcy laws, and transactions where a legal opinion evidencing enforceability of the right of offset may not have been sought, or may have been unable to obtain.

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

	Amounts subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements AED000	Total AED000
	Gross amounts AED000	Amounts offset AED000	Net amounts in the balance sheet AED000	Financial instruments and Non-cash collateral ² AED000	Cash collateral AED000	Net amount AED000		
Financial assets								
Derivatives (Note 11)	3,136,580	—	3,136,580	(2,252,084)	(749,874)	134,622	216,708	3,353,288
Reverse repos and similar agreements classified as:	33,760,517	—	33,760,517	(33,760,517)	—	—	6,373,388	40,133,905
– trading assets	4,625,767	—	4,625,767	(4,625,767)	—	—	628,661	5,254,428
– non-trading assets	29,134,750	—	29,134,750	(29,134,750)	—	—	5,744,727	34,879,477
Loans and advances to customers ¹	866,831	—	866,831	—	(296,560)	570,271	—	866,831
At 31 Dec 2025	37,763,928	—	37,763,928	(36,012,601)	(1,046,434)	704,893	6,590,096	44,354,024
Derivatives (Note 11)	3,119,656	—	3,119,656	(2,098,592)	(796,646)	224,418	457,476	3,577,132
Reverse repos and similar agreements classified as:	33,731,690	—	33,731,690	(33,731,690)	—	—	514,705	34,246,395
– trading assets	3,990,572	—	3,990,572	(3,990,572)	—	—	494,256	4,484,828
– non-trading assets	29,741,118	—	29,741,118	(29,741,118)	—	—	20,449	29,761,567
Loans and advances to customers ¹	789,408	—	789,408	—	(276,011)	513,397	—	789,408
At 31 Dec 2024	37,640,754	—	37,640,754	(35,830,282)	(1,072,657)	737,815	972,181	38,612,935
Financial liabilities								
Derivatives (Note 11)	2,391,411	—	2,391,411	(2,252,084)	(71,889)	67,438	548,930	2,940,341
Repurchase agreements classified as:	12,709,264	—	12,709,264	(12,709,264)	—	—	3,609,545	16,318,809
– trading liabilities	1,820,468	—	1,820,468	(1,820,468)	—	—	—	1,820,468
– non-trading liabilities	10,888,796	—	10,888,796	(10,888,796)	—	—	3,609,545	14,498,341
Customer accounts	866,831	—	866,831	—	(296,560)	570,271	—	866,831
At 31 Dec 2025	15,967,506	—	15,967,506	(14,961,348)	(368,449)	637,709	4,158,475	20,125,981
Derivatives (Note 11)	2,249,976	—	2,249,976	(2,098,592)	(84,512)	66,872	669,203	2,919,179
Repurchase agreements classified as:	13,054,623	—	13,054,623	(13,054,623)	—	—	—	13,054,623
– trading liabilities	2,258,274	—	2,258,274	(2,258,274)	—	—	—	2,258,274
– non-trading liabilities	10,796,349	—	10,796,349	(10,796,349)	—	—	—	10,796,349
Customer accounts	789,408	—	789,408	—	(276,011)	513,397	—	789,408
At 31 Dec 2024	16,094,007	—	16,094,007	(15,153,215)	(360,523)	580,269	669,203	16,763,210

1 At 31 December 2025, the total amount of 'Loans and advances to customers' was AED 52,005 million (2024: AED 49,905 million), of which AED 867 million (2024: AED 789 million) was subject to offsetting.

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

24 Risk management

Our approach to risk

Our risk management

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks which the Bank is exposed to are retail and wholesale credit risk (including cross-border country risk), market risk (predominantly foreign exchange and interest rate risks), liquidity and funding risk and strategic risk (including reputational risk). The Bank is also exposed to non-financial risk in various forms (including Resilience risk, Financial Crime and Fraud Risk, People Risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting, Tax risks and Model Risks). The Bank is committed to managing and mitigating climate-related risks, both physical and transition risks, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

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

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

Our risk management framework

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial.

The Risk Management Framework ('RMF') sets out in a consistent way how we identify, assess and manage the risks that matter the most with respect to our ability to operate, grow, and meet external commitments. It translates our strategy, values and commitments into practical actions and risk-aware decisions.

Our Risk and Compliance function is responsible for the Bank's risk management framework. Independent from the business segments, including our sales and trading functions, it provides challenge, oversight and appropriate balance in risk/return decisions. Their responsibility includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risk.

Responsibility for minimising both financial and non-financial risk, including regulatory compliance and financial crime, lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our chief risk and compliance officers.

Key components of our risk management framework

HSBC Values and risk culture

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

Risk culture

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

Risk governance and ownership

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

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

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. We use a defined and consistent executive risk governance structure to help ensure there is appropriate oversight and accountability of risk, which facilitates reporting and escalation to the UAE RMM.

Risk appetite

Our risk appetite encapsulates the consideration of financial and non-financial risks. Bank's risk appetite is expressed in both quantitative and qualitative terms and applied at global business level, at the regional level and to the material operating entities. Our risk appetite continues to evolve and expand its scope as part of this regular review process. HBME Board periodically reviews and approves the entity's risk appetite statement to ensure it remains fit for purpose. The risk appetite is considered, developed and enhanced through:

- an alignment with our strategy, purpose, values, customer needs and HSBC Group Risk Appetite;
- trends highlighted in other risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our capital, liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

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

Our Responsibilities

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

Three lines of defence

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

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

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

Stress testing

Our stress testing programme assesses our capital and liquidity strength through examination of our resilience to external shocks, and forms part of our risk management and capital and liquidity planning. 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 Bank and provides an indication to regulators of the Bank's resilience to shocks and financial stability.

Internal stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, as well as other potential events that are specific to the HSBC Group and the Bank.

The selection of stress scenarios is based upon the output of our identified top and emerging risks and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the region and the Bank is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

During 2025, we completed a bank-wide internal stress test alongside testing of the HSBC Group's strategy, otherwise known as the corporate plan, to test and inform our strategy and assumptions. The stress scenario assessed the impact of ongoing trade policies (e.g. tariffs) and geopolitical conflicts which remain key risks for the global economy.

Notes on the financial statements

We also conduct reverse stress tests each year to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing helps us understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate risk actions and contingency plans designed to mitigate risks.

Recovery plan

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

Key developments in 2025

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

- We have advanced our risk comprehensive initiative aimed at strengthening our global regulatory reporting processes and making them more sustainable, including enhancements to data, consistency and controls. While this programme continues, there may be further impacts on some of our regulatory ratios as we implement recommended changes and continue to enhance our controls across the process.
- We strengthened our control environment through the continued embedding of our Global Control Oversight function which aims to drive a centralised approach to controls oversight across the first line of defence business and process owners, including a globally consistent approach to control standards, aggregated reporting and testing.
- We enhanced our technology and cybersecurity controls to help improve the resilience and security of our technology services in response to the heightened external threat environment.
- We responded to new innovations in the financial system, including growing adoption of digital assets and currencies, as well as the evolving use of AI through reviewing and enhancing controls across risk areas to help us and our customers safely benefit from innovation.
- We enhanced our processes, framework and controls to improve the oversight of our third parties. We have strengthened our due diligence and monitoring capabilities, with respect to the financial stability of our third parties to better manage our supply chain and we continue to assess and seek to manage our operational resilience.
- We have delivered further enhancements to the way we manage climate considerations across the organisation. This has been achieved through risk policy and guideline updates and further development of our risk metrics and assessments to help monitor and manage exposures. We have also reviewed a number of climate models and have sought to enhance our internal climate scenario analysis capabilities.
- We deployed advanced technology and analytics capabilities into new markets to improve our ability to identify suspicious activities and prevent financial crime. We will continue to evaluate technological solutions to improve our capabilities in the detection and prevention of financial crime.

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 assesses the internal and external risk environment and the top and emerging risks as necessary.

- ▶ Our current top and emerging risks are described on page 68.

Credit risk

Credit risk management

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

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

The Credit Risk sub-function is responsible for key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the Bank's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios while fostering a culture of responsible lending.

IFRS 9 'Financial Instruments' Process

The IFRS 9 'Financial Instruments' process focuses on three main areas: modelling, data and forward economic guidance; implementation; and governance.

Modelling, Data, and Forward Economic Guidance

This involves establishing IFRS 9 modelling and data processes across various geographies, including internal model risk governance and independent reviews. A centralised process generates unbiased global economic scenarios, which are reviewed quarterly for consistency with current economic conditions and risks. These scenarios are subject to final review and approval by senior management in a forward economic guidance global business impairment committee.

Implementation

A centralised impairment engine calculates expected credit losses using data from various systems, which is subject to validation checks and enhancements from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner.

Notes on the financial statements

Governance

Regional management review forums, including representatives from Credit Risk and Finance, review and approve impairment results. These approvals are reviewed by retail and wholesale impairment committees for final approval. Required committee members include the relevant Chief Risk Officers, Chief Financial Officers and the Global Financial Controller.

Concentration of exposure

Concentration of credit risk occurs when multiple counterparties share similar economic traits or operate in the same sectors or geographies, making them collectively vulnerable to changes in economic or political conditions. We have business segments with a broad range of products and operate in a number of geographical markets. To mitigate this risk, the Bank uses various controls such as portfolio and counterparty limits, approval and review processes, and stress testing across industries, countries and business segments.

Credit quality of financial instruments

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

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

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

Impairment assessment

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

Write-off of loans and advances

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

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

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

Summary of credit risk

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

The IFRS 9 allowance for ECL has increased from AED 1,895 million at 31 December 2024 to AED 2,476 million at 31 December 2025.

The IFRS 9 allowance for ECL at 31 December 2025 comprises AED 2,436 million (2024: AED 1,852 million) in respect of assets held at amortised cost, AED 1.6 million (2024: AED 3.1 million) on debt instruments measured at fair value through other comprehensive income and AED 39 million (2024: AED 40 million) in respect of loan commitments and financial guarantees.

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

	31 Dec 2025		31 Dec 2024	
	Gross carrying/ nominal amount AED000	Allowance for ECL AED000	Gross carrying/ nominal amount AED000	Allowance for ECL AED000
Loans and advances to customers at amortised cost	54,434,722	(2,430,115)	51,751,977	(1,847,031)
Loans and advances to banks at amortised cost	28,076,676	(90)	26,278,032	(1,225)
Other financial assets measured at amortised costs	55,084,874	(5,324)	45,936,575	(4,018)
– cash	744,984	–	713,194	–
– reverse repurchase agreements – non-trading	34,879,477	–	29,761,567	–
– financial investments	15,968,842	(406)	12,073,029	(1,515)
– prepayments, accrued income and other assets	3,491,571	(4,918)	3,388,785	(2,503)
Total gross carrying amount on-balance sheet	137,596,272	(2,435,529)	123,966,584	(1,852,274)
Loans and other credit related commitments	27,767,376	(13,541)	25,675,620	(35,290)
Financial guarantees	2,378,773	(25,152)	2,206,244	(4,484)
Total nominal amount off-balance sheet	30,146,149	(38,693)	27,881,864	(39,774)
		Memorandum allowance for ECL¹ AED000		Memorandum allowance for ECL¹ AED000
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	22,244,574	(1,581)	19,132,251	(3,083)

1 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.

Notes on the financial statements

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

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

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

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2025

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	POCI AED000	Total AED000	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	POCI AED000	Total AED000
Loans and advances to customers at amortised cost	46,624,485	3,649,141	4,142,669	18,427	54,434,722	(84,671)	(185,520)	(2,142,911)	(17,013)	(2,430,115)
Loans and advances to banks at amortised cost	28,076,650	26	—	—	28,076,676	(83)	(7)	—	—	(90)
Other financial assets measured at amortised cost	55,051,158	29,769	3,947	—	55,084,874	(1,267)	(118)	(3,939)	—	(5,324)
Loan and other credit-related commitments	26,807,734	952,293	7,349	—	27,767,376	(3,289)	(6,528)	(3,724)	—	(13,541)
Financial guarantees	2,191,714	133,635	53,424	—	2,378,773	(144)	(60)	(24,948)	—	(25,152)
At 31 Dec 2025	158,751,741	4,764,864	4,207,389	18,427	167,742,421	(89,454)	(192,233)	(2,175,522)	(17,013)	(2,474,222)

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2025

	ECL coverage %				
	Stage 1 %	Stage 2 %	Stage 3 %	POCI %	Total %
Loans and advances to customers at amortised cost	0.2	5.1	51.7	92.3	4.5
Loans and advances to banks at amortised cost	—	26.9	—	—	—
Other financial assets measured at amortised cost	—	0.4	99.8	—	—
Loan and other credit-related commitments	—	0.7	50.7	—	—
Financial guarantees	—	—	46.7	—	1.1
At 31 Dec 2025	0.1	4.0	51.7	92.3	1.5

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

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

Notes on the financial statements

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

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

Measurement uncertainty and sensitivity analysis of ECL estimates

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

In accordance with the Central Bank of the UAE's Credit Risk Management Standards, retail exposures are assessed for default based on both contractual non-payment and indicators of unlikeliness to pay. Unlikeliness to pay reflects situations where the Bank determines that a retail customer is unlikely to meet credit obligations in full, even if the exposure is not yet past due. Such assessments incorporate a combination of quantitative indicators (including adverse repayment behaviour, repeated delinquencies below 90 days, and deterioration in internal credit risk metrics) and qualitative factors (such as evidence of financial stress or other relevant credit concerns). These criteria are embedded within the Bank's credit risk monitoring and provisioning framework to ensure timely identification of credit-impaired retail exposures and appropriate recognition of expected credit losses, consistent with regulatory and accounting requirements.

Methodology for Developing Forward Looking Economic Scenarios

The Bank used four global economic scenarios to capture the current economic expectations and to articulate management's view of the range of risks and potential outcomes.

Three scenarios, the Upside, Central and Downside, are drawn from external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. These estimates are used as conditioning assumptions in a modelled expansion of other variables, to ensure scenarios that are economically coherent and internally consistent. The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks.

The consensus Central scenario is deemed the 'most likely' scenario, and will attract the largest probability weighting. The consensus outer scenarios represent short-term cyclical deviations from the Central scenario where scenario paths eventually converge back to long-term trend expectations. They are calibrated to a 10% probability.

The Downside 2 scenario explores a more extreme economic outcome than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations and may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends. It is calibrated to a 5% probability. In most circumstances, the alignment of weightings with the calibrated probability of scenarios is deemed appropriate for the unbiased estimation of ECL. However, management may depart from this probability-based, scenario weighting approach when the economic outlook and forecasts are determined to be particularly uncertain and risks are elevated.

Notes on the financial statements

Description of Consensus Economic Scenarios

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

Central scenario

	UAE	
	2025	2024
Coverage period for 2025: (2026Q1–2030Q4); 2024: (2025Q1–2029Q4)		
Probability (%)	75	75
GDP growth rate (%)		
2025: Annual average growth rate	n/a	4.4
2026: Annual average growth rate	4.7	4.2
2027: Annual average growth rate	4.1	3.9
2028: Annual average growth rate	3.8	3.6
2029: Annual average growth rate	3.5	3.6
2030: Annual average growth rate	3.5	n/a
5-year average	3.9	3.9
Oil price (US\$/barrel)		
2025: Average oil price	n/a	70.8
2026: Average oil price	63.6	69.2
2027: Average oil price	64.2	68.3
2028: Average oil price	65.4	67.9
2029: Average oil price	66.5	67.9
2030: Average oil price	66.5	n/a
5-year average	65.3	68.8
House price growth (%)		
2025: Annual average growth rate	n/a	9.3
2026: Annual average growth rate	5.8	5.1
2027: Annual average growth rate	3.2	3.6
2028: Annual average growth rate	2.3	1.8
2029: Annual average growth rate	2.0	1.3
2030: Annual average growth rate	2.1	n/a
5-year average	3.1	4.2
Inflation rate (%)		
2025: Annual average rate	n/a	2.1
2026: Annual average rate	2.0	1.9
2027: Annual average rate	1.9	1.8
2028: Annual average rate	1.9	1.9
2029: Annual average rate	2.0	1.8
2030: Annual average rate	2.0	n/a
5-year average	1.9	1.9

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

Outer scenarios (less likely)

	2025		
	Consensus upside scenario	Consensus downside scenario	Downside 2 scenario
Probability (%)	10	10	5
GDP level (%) ¹	29.0 (4Q30)	0.4 (1Q26)	(5.7) (2Q27)
Oil price (US\$)	74.87 (4Q26)	40.71 (4Q26)	29.92 (2Q27)
House price index (%) ¹	22.2 (4Q30)	(3.4) (2Q26)	(30.5) (1Q28)
Inflation rate (%) ²	3.1 (2Q26)	0.5 (4Q26)	0.3 (4Q26)
	2024		
Probability (%)	10	10	5
GDP level (%) ¹	28.9 (4Q29)	0.3 (1Q25)	(6.8) (2Q26)
Oil price (US\$)	68.5 (1Q27)	67.9 (4Q28)	51.8 (3Q26)
House price index (%) ¹	26.1 (4Q29)	(0.4) (1Q25)	(13.2) (2Q27)
Inflation rate (%) ²	0.6 (4Q25)	2.8 (1Q26)	3.7 (2Q25)

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

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

Economic scenarios sensitivity analysis of ECL estimates

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

Notes on the financial statements

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

How economic scenarios are reflected in the wholesale calculation of ECL

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

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

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

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

	UAE	
	2025 AEDm	2024 AEDm
Reported ECL	191	187
Gross carrying/nominal amount	230,732	216,343
Consensus central scenario	187	180
Consensus upside scenario	173	147
Consensus downside scenario	206	213
Downside 2 scenario	301	441

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

How economic scenarios are reflected in the retail calculation of ECL

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

For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value profiles for the remaining maturity of the asset, using national level house price index forecasts and applying the corresponding LGD expectation relative to the updated forecast collateral values.

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

	UAE					
	Gross carrying amount AEDm	Reported ECL AEDm	Central scenario ECL AEDm	Upside scenario ECL AEDm	Downside scenario ECL AEDm	Downside 2 scenario ECL AEDm
At 31 Dec 2025						
Mortgages	8,469	22	22	22	22	26
Credit cards	2,170	143	143	140	147	169
Other	2,277	44	40	40	44	48
At 31 Dec 2024						
Mortgages	7,319	29	29	29	29	29
Credit cards	1,968	114	114	114	114	129
Other	2,527	62	62	62	62	70

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

Management judgemental adjustments

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

At 31 December 2025, there is a management judgemental adjustment overlay in the wholesale portfolio of AED 80 million (2024: AED 99 million) and there is an overlay of AED 40 million in the retail portfolio (2024: AED 33 million).

Credit exposure

Maximum exposure to credit risk

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

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

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

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

Maximum exposure to credit risk

	2025			2024		
	Maximum exposure AED000	Offset AED000	Net AED000	Maximum exposure AED000	Offset AED000	Net AED000
Loans and advances to customers held at amortised cost	52,004,607	(296,560)	51,708,047	49,904,946	(276,011)	49,628,935
Loans and advances to banks held at amortised cost	28,076,586	—	28,076,586	26,276,807	—	26,276,807
Other financial assets measured at amortised costs	55,638,002	(751,313)	54,886,689	46,358,186	(2,729,153)	43,629,033
– cash	744,984	—	744,984	713,194	—	713,194
– reverse repurchase agreements – non-trading	34,879,477	(751,313)	34,128,164	29,761,567	(2,729,153)	27,032,414
– financial investments	15,968,436	—	15,968,436	12,071,514	—	12,071,514
– prepayments, accrued income and other assets	4,045,105	—	4,045,105	3,811,911	—	3,811,911
Derivatives	3,353,288	(3,001,957)	351,331	3,577,132	(2,895,238)	681,894
Total on-balance sheet	139,072,483	(4,049,830)	135,022,653	126,117,071	(5,900,402)	120,216,669
– financial guarantees and similar contracts	47,665,985	—	47,665,985	43,583,864	—	43,583,864
– loan and other credit-related commitments	64,743,496	—	64,743,496	61,354,461	—	61,354,461
Total off-balance sheet	112,409,481	—	112,409,481	104,938,325	—	104,938,325

Reconciliation of changes in gross carrying/nominal amount and allowances

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

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

Notes on the financial statements

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2025

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000
At 1 Jan 2025	99,294,093	(112,785)	4,024,067	(124,696)	2,580,537	(1,646,995)	13,176	(3,554)	105,911,873	(1,888,030)
Transfers of financial instruments:										
– Transfers from Stage 1 to Stage 2	(2,991,819)	(31,561)	894,573	77,735	2,097,246	(46,174)	–	–	–	–
– Transfers from Stage 2 to Stage 1	2,686,673	(42,721)	(2,686,673)	42,721	–	–	–	–	–	–
– Transfers to Stage 3	–	–	(2,148,139)	72,209	2,148,139	(72,209)	–	–	–	–
– Transfers from Stage 3	–	–	50,893	(26,035)	(50,893)	26,035	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	20,550	–	(22,974)	–	(1,130)	–	–	–	(3,554)
New financial assets originated or purchased	19,387,208	(28,973)	–	–	–	–	–	–	19,387,208	(28,973)
Asset derecognised (including final repayments)	(21,623,296)	17,298	(416,779)	30,011	(321,879)	143,954	–	–	(22,361,954)	191,263
Changes to risk parameters – further lending/repayments (including changes in credit quality and model used)	8,196,222	47,310	233,234	(152,191)	146,329	(851,727)	5,251	(13,459)	8,581,036	(970,067)
Assets written off	–	–	–	–	(298,791)	298,791	–	–	(298,791)	298,791
Others	–	(26)	–	–	–	(68,302)	–	–	–	(68,328)
At 31 Dec 2025	102,262,408	(88,187)	4,735,095	(192,115)	4,203,442	(2,171,583)	18,427	(17,013)	111,219,372	(2,468,898)
ECL (charge)/release for the period	–	56,185	–	(145,154)	–	(708,903)	–	(13,459)	–	(811,331)
Recoveries	–	–	–	–	–	66,563	–	–	–	66,563
Total ECL (charge)/release for the period	–	56,185	–	(145,154)	–	(642,340)	–	(13,459)	–	(744,768)

	At 31 Dec 2025		Twelve months ended 31 Dec 2025
	Gross carrying/nominal amount AED000	Allowance for ECL AED000	ECL and other credit charges AED000
As above	111,219,372	(2,468,898)	(744,768)
Other financial assets measured at amortised cost	55,084,874	(5,324)	850
Performance and other guarantees not considered for IFRS 9	–	–	247,839
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	166,304,246	(2,474,222)	(496,079)
Debt instruments measured at FVOCI	22,244,574	(1,581)	1,501
Change in expected credit losses and other credit impairment charges	N/A	(2,475,803)	(494,578)

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2025 and that are still subject to enforcement activity is AED 173 million (31 December 2024: AED 471 million).

As shown in the previous table, the allowance for ECL for loans and advances to customers and banks and relevant loan commitments and financial guarantees increased by AED 581 million during the year from AED 1,888 million at 31 December 2024 to AED 2,469 million at 31 December 2025.

This increase was primarily driven by:

- AED 970 million relating to changes in risk parameters;
- AED 29 million relating to new financial assets originated or purchased; and
- AED 68 million relating to other movements.

These were partly offset by:

- AED 299 million of assets written off; and
- AED 191 million due to assets derecognised.

The ECL charge for the period of AED 811 million presented in the previous table consisted of AED 970 million charge relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages, AED 3 million charge relating to the net remeasurement impact of stage transfers and AED 162 million release relating to underlying net book volume movement.

Notes on the financial statements

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

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

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

Notes on the financial statements

Wholesale lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2025

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000
At 1 Jan 2025	79,125,302	(71,440)	3,392,831	(24,311)	2,472,724	(1,572,042)	13,176	(3,554)	85,004,033	(1,671,347)
Transfers of financial instruments	(2,808,095)	(9,073)	944,557	13,037	1,863,538	(3,964)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(4,920,782)	6,319	4,920,782	(6,319)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	2,112,687	(15,392)	(2,112,687)	15,392	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(1,863,538)	3,964	1,863,538	(3,964)	—	—	—	—
– Transfers from Stage 3	—	—	—	—	—	—	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	11,576	—	(14,216)	—	—	—	—	—	(2,640)
New financial assets originated or purchased	9,168,014	(6,610)	—	—	—	—	—	—	9,168,014	(6,610)
Asset derecognised (including final repayments)	(15,876,429)	1,321	(148,827)	42	(99,068)	2,001	—	—	(16,124,324)	3,364
Changes to risk parameters – further lending/repayments (including changes in credit quality and model used)	9,674,267	47,425	(32,273)	(83,371)	(15,978)	(618,498)	5,251	(13,459)	9,631,267	(667,903)
Assets written off	—	—	—	—	(168,735)	168,735	—	—	(168,735)	168,735
Others	—	(26)	—	—	—	(64,878)	—	—	—	(64,904)
At 31 Dec 2025	79,283,059	(26,827)	4,156,288	(108,819)	4,052,481	(2,088,646)	18,427	(17,013)	87,510,255	(2,241,305)
ECL (charge)/release for the period	—	53,712	—	(97,545)	—	(616,497)	—	(13,459)	—	(673,789)
Recoveries	—	—	—	—	—	26,726	—	—	—	26,726
Total ECL (charge)/release for the period	—	53,712	—	(97,545)	—	(589,771)	—	(13,459)	—	(647,063)
At 1 Jan 2024	63,907,002	(58,422)	4,372,158	(27,605)	2,859,678	(1,911,888)	11,130	(5,664)	71,149,968	(2,003,579)
Transfers of financial instruments:	(2,504,912)	(38,141)	2,119,320	69,082	385,592	(30,941)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(5,968,800)	5,456	5,968,800	(5,456)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	3,463,888	(43,597)	(3,463,888)	43,597	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(385,648)	30,941	385,648	(30,941)	—	—	—	—
– Transfers from Stage 3	—	—	56	—	(56)	—	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	9,849	—	(7,805)	—	—	—	—	—	2,044
New financial assets originated or purchased	20,378,220	(19,177)	—	—	—	—	—	—	20,378,220	(19,177)
Asset derecognised (including final repayments)	(20,047,883)	2,655	(245,228)	128	(52,992)	34,863	—	—	(20,346,103)	37,646
Changes to risk parameters – further lending/repayments (including changes in credit quality and model used)	17,392,875	31,789	(2,853,419)	(58,111)	(277,112)	(41,005)	2,046	2,110	14,264,390	(65,217)
Assets written off	—	—	—	—	(442,442)	442,442	—	—	(442,442)	442,442
Others	—	7	—	—	—	(65,513)	—	—	—	(65,506)
At 31 Dec 2024	79,125,302	(71,440)	3,392,831	(24,311)	2,472,724	(1,572,042)	13,176	(3,554)	85,004,033	(1,671,347)
ECL (charge)/release for the period	—	25,116	—	(65,788)	—	(6,142)	—	2,110	—	(44,704)
Recoveries	—	—	—	—	—	5,611	—	—	—	5,611
Total ECL (charge)/release for the period	—	25,116	—	(65,788)	—	(531)	—	2,110	—	(39,093)

Notes on the financial statements

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2025

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000	Gross carrying/nominal amount AED000	Allowance for ECL AED000
At 1 Jan 2025	20,168,791	(41,345)	631,236	(100,385)	107,813	(74,953)	20,907,840	(216,683)
Transfers of financial instruments:	(183,724)	(22,488)	(49,984)	64,698	233,708	(42,210)	—	—
– Transfers from Stage 1 to Stage 2	(757,710)	4,841	757,710	(4,841)	—	—	—	—
– Transfers from Stage 2 to Stage 1	573,986	(27,329)	(573,986)	27,329	—	—	—	—
– Transfers to Stage 3	—	—	(284,601)	68,245	284,601	(68,245)	—	—
– Transfers from Stage 3	—	—	50,893	(26,035)	(50,893)	26,035	—	—
Net remeasurement of ECL arising from transfer of stage	—	8,974	—	(8,758)	—	(1,130)	—	(914)
New financial assets originated or purchased	10,219,194	(22,363)	—	—	—	—	10,219,194	(22,363)
Asset derecognised (including final repayments)	(5,746,867)	15,977	(267,952)	29,969	(222,811)	141,953	(6,237,630)	187,899
Changes to risk parameters – further lending/repayments (including changes in credit quality and model used)	(1,478,045)	(115)	265,507	(68,820)	162,307	(233,229)	(1,050,231)	(302,164)
Assets written off	—	—	—	—	(130,056)	130,056	(130,056)	130,056
Foreign exchange	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	(3,424)	—	(3,424)
At 31 Dec 2025	22,979,349	(61,360)	578,807	(83,296)	150,961	(82,937)	23,709,117	(227,593)
ECL (charge)/release for the period	—	2,473	—	(47,609)	—	(92,406)	—	(137,542)
Recoveries	—	—	—	—	—	39,837	—	39,837
Others	—	—	—	—	—	—	—	—
Total ECL (charge)/release for the period	—	2,473	—	(47,609)	—	(52,569)	—	(97,705)
At 1 Jan 2024	17,015,758	(51,535)	1,497,503	(106,932)	141,798	(106,480)	18,655,059	(264,947)
Transfers of financial instruments:	654,587	(15,772)	(820,354)	72,367	165,767	(56,595)	—	—
– Transfers from Stage 1 to Stage 2	(631,877)	8,608	631,877	(8,608)	—	—	—	—
– Transfers from Stage 2 to Stage 1	1,286,464	(24,380)	(1,286,464)	24,380	—	—	—	—
– Transfers to Stage 3	—	—	(207,368)	65,194	207,368	(65,194)	—	—
– Transfers from Stage 3	—	—	41,601	(8,599)	(41,601)	8,599	—	—
Net remeasurement of ECL arising from transfer of stage	—	4,601	—	(5,584)	—	(292)	—	(1,275)
New financial assets originated or purchased	8,093,079	(26,623)	—	—	—	—	8,093,079	(26,623)
Asset derecognised (including final repayments)	(4,804,579)	16,881	(376,735)	27,234	(190,938)	113,621	(5,372,252)	157,736
Changes to risk parameters – further lending/repayments (including changes in credit quality and model used)	(790,054)	31,103	330,822	(87,470)	159,567	(190,748)	(299,665)	(247,115)
Assets written off	—	—	—	—	(168,381)	168,381	(168,381)	168,381
Foreign exchange	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	(2,840)	—	(2,840)
At 31 Dec 2024	20,168,791	(41,345)	631,236	(100,385)	107,813	(74,953)	20,907,840	(216,683)
ECL release/(charge) for the period	—	25,962	—	(65,820)	—	(77,419)	—	(117,277)
Recoveries	—	—	—	—	—	38,408	—	38,408
Others	—	—	—	—	—	—	—	—
Total ECL (charge)/release for the period	—	25,962	—	(65,820)	—	(39,011)	—	(78,869)

Credit quality of financial instruments

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

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

Credit quality classification

Quality classification	Debt securities and other bills	Wholesale lending	Retail lending
	External credit rating	Internal credit rating	Internal credit rating ²
Strong	A– and above	CRR1 to CRR2	Band 1 and 2
Good	BBB+ to BBB–	CRR3	Band 3
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	Band 4 and 5
Sub-standard	B– to C	CRR6 to CRR8	Band 6
Impaired	Default	CRR9 to CRR10	Band 7

1 Customer risk rating.

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

Notes on the financial statements

Quality classification definitions

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

Risk rating scales

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

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

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

Distribution of financial instruments by credit quality at 31 December 2025

	Gross carrying/notional amount						Allowance for ECL AED000	Net AED000
	Strong AED000	Good AED000	Satisfactory AED000	Sub-Standard AED000	Credit impaired AED000	Total AED000		
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	23,512,912	11,320,050	14,775,977	664,687	4,161,096	54,434,722	(2,430,115)	52,004,607
Loans and advances to banks held at amortised cost	27,843,122	62,426	171,102	26	–	28,076,676	(90)	28,076,586
Cash	744,984	–	–	–	–	744,984	–	744,984
Reverse repurchase agreements – non-trading	34,358,395	206,577	314,505	–	–	34,879,477	–	34,879,477
Prepayments, accrued income and other assets	754,965	855,236	1,875,088	2,335	3,947	3,491,571	(4,918)	3,486,653
– endorsements and acceptances	327,700	855,236	677,619	2,335	2,000	1,864,890	(2,779)	1,862,111
– accrued income and other	427,265	–	1,197,469	–	1,947	1,626,681	(2,139)	1,624,542
Financial investments at amortised cost	9,087,086	–	6,881,756	–	–	15,968,842	(406)	15,968,436
Debt instruments measured at fair value through other comprehensive income ¹	21,254,611	–	899,801	–	–	22,154,412	(1,581)	22,152,831
Out-of-scope for IFRS 9								
Trading assets	4,657,149	1,233,532	812,458	66,882	2,293	6,772,314	–	6,772,314
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	–	–	192,528	–	–	192,528	–	192,528
Derivatives	3,144,537	23,498	183,817	1,437	–	3,353,289	–	3,353,289
Total gross carrying amount on balance sheet	125,357,761	13,701,319	26,107,032	735,367	4,167,336	170,068,815	(2,437,110)	167,631,705
Percentage of total credit quality	74%	8%	15%	0%	2%	100%		
Loan and other credit related commitments	15,745,733	6,203,628	5,763,308	47,358	7,349	27,767,376	(13,541)	27,753,835
Financial guarantees	1,113,229	392,785	787,416	31,918	53,425	2,378,773	(25,152)	2,353,621
Total nominal amount off balance sheet	16,858,962	6,596,413	6,550,724	79,276	60,774	30,146,149	(38,693)	30,107,456
At 31 Dec 2025	142,216,723	20,297,732	32,657,756	814,643	4,228,110	200,214,964	(2,475,803)	197,739,161

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

Notes on the financial statements

Distribution of financial instruments by credit quality at 31 December 2024

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

Notes on the financial statements

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2025

	Gross carrying/notional amount						Allowance for ECL AED000	Net AED000
	Strong AED000	Good AED000	Satisfactory AED000	Sub- standard AED000	Credit impaired AED000	Total AED000		
Gross carrying amount on balance sheet	117,556,075	12,444,289	24,918,229	667,048	4,165,043	159,750,684	(2,437,110)	157,313,574
Loans and advances to customers held at amortised cost	23,512,912	11,320,050	14,775,977	664,687	4,161,096	54,434,722	(2,430,115)	52,004,607
– stage 1	22,796,327	10,451,005	13,283,574	93,579	–	46,624,485	(84,671)	46,539,814
– stage 2	716,585	869,045	1,492,403	571,108	–	3,649,141	(185,520)	3,463,621
– stage 3	–	–	–	–	4,142,669	4,142,669	(2,142,911)	1,999,758
– POCI	–	–	–	–	18,427	18,427	(17,013)	1,414
Loans and advances to banks held at amortised cost	27,843,122	62,426	171,102	26	–	28,076,676	(90)	28,076,586
– stage 1	27,843,122	62,426	171,102	–	–	28,076,650	(83)	28,076,567
– stage 2	–	–	–	26	–	26	(7)	19
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised costs	44,945,430	1,061,813	9,071,349	2,335	3,947	55,084,874	(5,324)	55,079,550
– stage 1	44,945,430	1,054,833	9,050,895	–	–	55,051,158	(1,267)	55,049,891
– stage 2	–	6,980	20,454	2,335	–	29,769	(118)	29,651
– stage 3	–	–	–	–	3,947	3,947	(3,939)	8
– POCI	–	–	–	–	–	–	–	–
Debt instruments measured at fair value through other comprehensive income ¹	21,254,611	–	899,801	–	–	22,154,412	(1,581)	22,152,831
– stage 1	21,254,611	–	899,801	–	–	22,154,412	(1,581)	22,152,831
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Nominal amount off balance sheet	16,858,962	6,596,413	6,550,724	79,276	60,774	30,146,149	(38,693)	30,107,456
Loan and other credit-related commitments	15,745,733	6,203,628	5,763,308	47,358	7,349	27,767,376	(13,541)	27,753,835
– stage 1	15,618,259	5,930,561	5,258,914	–	–	26,807,734	(3,289)	26,804,445
– stage 2	127,474	273,067	504,394	47,358	–	952,293	(6,528)	945,765
– stage 3	–	–	–	–	7,349	7,349	(3,724)	3,625
– POCI	–	–	–	–	–	–	–	–
Financial guarantees	1,113,229	392,785	787,416	31,918	53,425	2,378,773	(25,152)	2,353,621
– stage 1	1,113,229	374,165	703,439	881	–	2,191,714	(144)	2,191,570
– stage 2	–	18,620	83,977	31,037	–	133,634	(60)	133,574
– stage 3	–	–	–	–	53,425	53,425	(24,948)	28,477
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2025	134,415,037	19,040,702	31,468,953	746,324	4,225,817	189,896,833	(2,475,803)	187,421,030

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

Notes on the financial statements

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

	Gross carrying/notional amount						Allowance for ECL AED000	Net AED000
	Strong AED000	Good AED000	Satisfactory AED000	Sub- standard AED000	Credit impaired AED000	Total AED000		
Gross carrying amount on balance sheet	101,675,817	15,974,511	22,266,388	763,363	2,556,854	143,236,933	(1,855,357)	141,381,576
Loans and advances to customers held at amortised cost	18,692,320	15,057,799	14,704,074	740,955	2,556,829	51,751,977	(1,847,031)	49,904,946
– stage 1	18,600,743	14,052,216	13,600,108	15,582	—	46,268,649	(94,355)	46,174,294
– stage 2	91,577	1,005,583	1,103,966	725,373	—	2,926,499	(120,231)	2,806,268
– stage 3	—	—	—	—	2,543,653	2,543,653	(1,628,891)	914,762
– POCI	—	—	—	—	13,176	13,176	(3,554)	9,622
Loans and advances to banks held at amortised cost	26,047,420	4,093	225,722	797	—	26,278,032	(1,225)	26,276,807
– stage 1	26,047,420	4,093	52,642	—	—	26,104,155	(588)	26,103,567
– stage 2	—	—	173,080	797	—	173,877	(637)	173,240
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised costs	38,551,257	912,619	6,451,063	21,611	25	45,936,575	(4,018)	45,932,557
– stage 1	38,551,257	911,338	6,359,639	2,547	—	45,824,781	(3,643)	45,821,138
– stage 2	—	1,281	91,424	19,064	—	111,769	(350)	111,419
– stage 3	—	—	—	—	25	25	(25)	—
– POCI	—	—	—	—	—	—	—	—
Debt instruments measured at fair value through other comprehensive income	18,384,820	—	885,529	—	—	19,270,349	(3,083)	19,267,266
– stage 1	18,384,820	—	885,529	—	—	19,270,349	(3,083)	19,267,266
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Nominal amount off balance sheet	13,904,944	7,886,914	6,009,131	43,991	36,884	27,881,864	(39,774)	27,842,090
Loan and other credit-related commitments	13,078,624	7,214,981	5,355,021	10,139	16,855	25,675,620	(35,290)	25,640,330
– stage 1	13,020,297	7,076,461	4,737,153	2,409	—	24,836,320	(17,570)	24,818,750
– stage 2	58,327	138,520	617,868	7,730	—	822,445	(3,552)	818,893
– stage 3	—	—	—	—	16,855	16,855	(14,168)	2,687
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	826,320	671,933	654,110	33,852	20,029	2,206,244	(4,484)	2,201,760
– stage 1	826,270	667,433	590,165	1,101	—	2,084,969	(272)	2,084,697
– stage 2	50	4,500	63,945	32,751	—	101,246	(276)	100,970
– stage 3	—	—	—	—	20,029	20,029	(3,936)	16,093
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2024	115,580,761	23,861,425	28,275,519	807,354	2,593,738	171,118,797	(1,895,131)	169,223,666

Past due but not impaired gross financial instruments

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

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

Notes on the financial statements

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

Stage 2 days past due analysis

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD
	AED000	AED000	AED000	AED000	AED000	AED000	%	%	%
Loans and advances to customers held at amortised cost	3,649,141	126,322	34,652	(185,520)	(12,586)	(14,797)	5.1	10.0	42.7
– personal	485,713	29,143	34,114	(83,291)	(10,572)	(14,794)	17.1	36.3	43.4
– corporate and commercial	3,071,796	97,179	535	(102,145)	(2,014)	(3)	3.3	2.1	0.6
– non-bank financial institutions	91,632	—	3	(84)	—	—	0.1	—	—
Loans and advances to banks at amortised cost	26	—	—	(7)	—	—	26.9	—	—
Other financial assets measured at amortised cost	29,769	—	368	(118)	—	—	0.4	—	—
At 31 Dec 2025	3,678,936	126,322	35,020	(185,645)	(12,586)	(14,797)	5.0	10.0	42.3

Loans and advances to customers held at amortised cost	2,926,499	39,938	52,713	(120,231)	(12,644)	(19,955)	4.1	31.7	37.9
– personal	550,778	37,195	42,260	(100,382)	(12,639)	(19,764)	18.2	34.0	46.8
– corporate and commercial	2,375,698	2,743	10,430	(19,849)	(5)	(191)	0.8	0.2	1.8
– non-bank financial institutions	23	—	23	—	—	—	—	—	—
Loans and advances to banks at amortised cost	173,877	—	—	(637)	—	—	0.4	—	—
Other financial assets measured at amortised cost	111,769	5,432	13,289	(350)	(2)	(36)	0.3	—	0.3
At 31 Dec 2024	3,212,145	45,370	66,002	(121,218)	(12,646)	(19,991)	3.8	27.9	30.3

Credit-impaired loans

We determine that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default. If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Forborne loans and advances

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

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

Credit quality of forborne loans

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

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

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

Forborne loans and recognition of expected credit losses

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

Notes on the financial statements

Forborne loans and advances to customers by industry sector at 31 December 2025

	First lien residential mortgages AED000	Other personal lending AED000	Corporate and commercial AED000	Total forborne loans AED000
Stage 2	8,560	51,744	227,675	287,979
Stage 3	11,115	7,996	1,962,517	1,981,628
Forborne loans At 31 Dec 2025	19,675	59,740	2,190,192	2,269,607
Allowance for expected credit losses on forborne loans				919,722
Stage 2	5,780	8,448	20,905	35,133
Stage 3	32,479	47,884	1,439,914	1,520,277
Forborne loans At 31 Dec 2024	38,259	56,332	1,460,819	1,555,410
Allowance for expected credit losses on forborne loans				638,081

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

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
	Total AED000	As a % of total gross loans %
At 31 Dec 2025		
Personal		
– residential mortgages	9,019,632	16.6
– other personal	5,719,257	10.5
	14,738,889	27.1
Corporate and commercial		
– commercial, industrial and international trade	26,786,268	49.2
– commercial real estate and other property-related	5,916,729	10.9
– government	69,423	0.1
– other corporate and commercial	3,268,794	6.0
	36,041,214	66.2
Financial		
– non-bank financial institutions	3,654,619	6.7
Total gross loans and advances to customers	54,434,722	100.0
Impaired loans		
– as a percentage of gross loans and advances to customers	7.64 %	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	4.46 %	
At 31 Dec 2024		
Personal		
– residential mortgages	7,648,207	14.8
– other personal	4,915,102	9.5
	12,563,309	24.3
Corporate and commercial		
– commercial, industrial and international trade	25,104,041	48.5
– commercial real estate and other property-related	5,957,497	11.5
– government	403,646	0.8
– other corporate and commercial	6,870,757	13.3
	38,335,941	74.1
Financial		
– non-bank financial institutions	852,727	1.6
Total gross loans and advances to customers	51,751,977	100.0
Impaired loans		
– as a percentage of gross loans and advances to customers	4.94 %	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	3.57 %	

Collateral and other credit enhancements held

Loans and advances held at amortised cost

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

Notes on the financial statements

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

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

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

	2025				2024			
	Gross carrying/nominal amount				Gross carrying/nominal amount			
	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	Total AED000	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	Total AED000
Fully collateralised by LTV ratio	8,835,595	117,772	58,151	9,011,518	7,461,371	147,293	32,479	7,641,143
– less than 50%	5,092,727	81,165	46,507	5,220,399	4,869,932	99,935	18,103	4,987,970
– 51% to 70%	2,808,024	31,095	9,566	2,848,685	1,954,496	34,674	10,861	2,000,031
– 71% to 80%	923,776	5,512	–	929,288	619,176	12,228	1,382	632,786
– 81% to 90%	3,855	–	2,078	5,933	17,767	–	2,133	19,900
– 91% to 100%	7,213	–	–	7,213	–	456	–	456
Partially collateralised (A): LTV > 100%	8,114	–	–	8,114	7,063	–	–	7,063
– collateral value on A	8,110	–	–	8,110	6,296	–	–	6,296
Total at 31 Dec	8,843,709	117,772	58,151	9,019,632	7,468,434	147,293	32,479	7,648,206

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

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

Other personal lending

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

Collateral on loans and advances

Commercial real estate loans and advances

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

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

	2025					2024				
	Gross carrying/nominal amount					Gross carrying/nominal amount				
	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	POCI AED000	Total AED000	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	POCI AED000	Total AED000
Non Collateralised	3,296,165	108	680	–	3,296,953	3,412,860	14	1,126	–	3,414,000
Fully collateralised by LTV ratio	877,471	128,240	325,354	–	1,331,065	1,011,228	–	429,027	–	1,440,255
– less than 50%	524,706	128,240	–	–	652,946	523,217	–	–	–	523,217
– 51% to 75%	223,614	–	325,354	–	548,968	244,296	–	126,805	–	371,101
– 76% to 90%	129,151	–	–	–	129,151	77,300	–	302,222	–	379,522
– 91% to 100%	–	–	–	–	–	166,415	–	–	–	166,415
Partially collateralised (A): LTV > 100%	724,364	–	–	–	724,364	884,314	–	–	–	884,314
– collateral value on A	625,000	–	–	–	625,000	477,800	–	–	–	477,800
Total at 31 Dec	4,898,000	128,348	326,034	–	5,352,382	5,308,402	14	430,153	–	5,738,569

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

The value of commercial real estate collateral is determined through a combination of professional and internal valuations and physical inspection. Due to the complexity of valuing collateral for commercial real estate, local valuation policies determine the frequency of review based on local market conditions. Revaluations are sought with greater frequency when, as part of the regular credit assessment of the obligor, material concerns arise in relation to the transaction which may reflect on the underlying performance of the collateral, or in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation (i.e. the obligor's credit quality classification indicates it is at the lower end, that is sub-standard, or approaching impaired). Where such concerns exist the revaluation method selected will depend upon the loan-to-value relationship, the direction in which the local commercial real estate market has moved since the last valuation and, most importantly, the specific characteristics of the underlying commercial real estate which is of concern.

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

Notes on the financial statements

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

	2025					2024				
	Gross carrying/nominal amount					Gross carrying/nominal amount				
	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	POCI AED000	Total AED000	Stage 1 AED000	Stage 2 AED000	Stage 3 AED000	POCI AED000	Total AED000
Non Collateralised	75,699,669	3,096,574	2,418,476	16,680	81,231,399	75,004,097	2,517,807	1,170,713	2,826	78,695,443
Fully collateralised by LTV ratio	2,569,766	419,048	811,424	—	3,800,238	618,391	50,484	380,784	—	1,049,659
– less than 50%	521,432	177,759	797,312	—	1,496,503	226,530	29,821	338,047	—	594,398
– 51% to 75%	478,465	241,289	14,112	—	733,866	87,889	—	—	—	87,889
– 76% to 90%	1,479,326	—	—	—	1,479,326	222,404	12,538	—	—	234,942
– 91% to 100%	90,543	—	—	—	90,543	81,568	8,125	42,737	—	132,430
Partially collateralised (A): LTV > 100%	1,878,670	437,279	443,128	1,747	2,760,824	4,060,036	608,024	471,054	10,350	5,149,464
– collateral value on A	511,849	136,970	93,508	967	743,294	1,280,464	220,876	97,031	2,716	1,601,087
Total at 31 Dec	80,148,105	3,952,901	3,673,028	18,427	87,792,461	79,682,524	3,176,315	2,022,551	13,176	84,894,566

Other credit risk exposures

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

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

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

Derivatives

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

Treasury Risk

Overview

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

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

Approach and policy

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

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

Governance and structure

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

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

Assessment and risk appetite

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

We aim to ensure that management has oversight of our liquidity and funding risks through robust governance, in line with our risk management framework. We manage liquidity and funding risk in accordance with consistent policies, procedures and reporting standards. This ensures that

Notes on the financial statements

obligations can be met in a timely manner, in the jurisdiction where they fall due. We are required to meet internal minimum requirements and any applicable regulatory requirements at all times.

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

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

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

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

Banking net interest income sensitivity

Banking NII sensitivity is the sensitivity of our banking net interest income to interest rate shocks. This metric includes the sensitivity arising from the use of banking book liabilities to fund trading assets, as well as the impacts of vanilla foreign exchange swaps to optimise cash management.

The banking NII sensitivities shown represent a hypothetical simulation of the base case banking NII, assuming a static balance sheet (specifically no assumed migration from current account to term deposits), and no management actions from Global Treasury. This also incorporates the effect of interest rate behaviouralisation and commercial margins.

All forecasted market rates are based on implied forward rates from the reporting date. Customer pricing includes flooring where there are contractual obligations.

As the market and policy rates move, the degree to which these changes are passed on to customers will vary based on several factors, including the absolute level of market interest rates, regulatory and contractual frameworks, and competitive dynamics. We have simplified the basis of preparation for our disclosure and have used a 50% pass-on assumption on certain interest-bearing deposits. Our asset pass-on assumptions are largely in line with our contractual agreements or established market practice, which typically results in a significant portion of interest rate changes being passed on.

An immediate interest rate rise of 100bps would increase projected banking NII by AED 402 million. An immediate interest rate fall of 100bps would decrease projected banking NII by AED 430 million.

The sensitivity of banking NII for the 12 months as at 31 December 2025 reduced by AED 3 million in the plus 100bps parallel shock and increased by AED 7 million in the minus 100bps parallel shock, when compared with 31 December 2024. The variance in sensitivity was mainly attributable to deposit growth, which exceeded the pace of our stabilisation initiatives in the Bank.

Economic value of equity sensitivity

EVE measures the present value of our banking book assets and liabilities excluding equity, based on a run-off balance sheet. EVE sensitivity assessed how changes in interest rates affect EVE, considering the term profile of non-maturing deposits adjusted for stability and price sensitivity. This is part of our internal risk metrics and is reported under regulatory rules (including the Supervisory Outlier Test)

Stress testing and recovery planning

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

Risks to capital and liquidity

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

Liquidity and Funding

Overview

At 31 December 2025, the Bank was above regulatory minimum liquidity and funding levels. The Bank maintains sufficient unencumbered liquid assets to comply with local and regulatory requirements. The Bank further consider an internal liquidity metric, which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Management of Liquidity and Funding Risk

Liquidity coverage ratio ('LCR')

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

Net stable funding ratio ('NSFR')

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

Depositor concentration and wholesale market term funding maturity concentration

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

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

Liquid assets

Liquid assets are held and managed on a stand-alone operating entity basis. Most are held primarily by the Markets Treasury function for the purpose of managing liquidity risk in line with the internal policy. Liquid assets include all unencumbered liquidity assets in compliance with internal and regulatory requirements.

► Further details in respect of the Bank's Liquidity and Funding ratios are set out on page 71.

Primary sources of funding

Our primary sources of funding are customer current accounts and savings deposits payable on demand or at short notice. We issue unsecured wholesale securities to supplement customer deposits and to change the currency mix, maturity profile or location of our liabilities.

Allocated capital and retained reserves, non-core capital instruments and intergroup borrowings are also a source of stable funding.

Customer deposits in the form of current accounts and savings deposits payable on demand or at short notice form a significant part of the Bank's funding, and the Bank places considerable importance on maintaining their stability. For deposits, stability depends upon maintaining depositor confidence in our capital strength and liquidity, and on competitive and transparent pricing.

Of the total liabilities of AED 150,641 million at 31 December 2025 (31 December 2024: AED 134,709 million), funding from customers amounted to AED 113,488 million at 31 December 2025 (31 December 2024: AED 102,998 million), of which AED 113,119 million at 31 December 2025 (31 December 2024: AED 101,834 million) was contractually repayable within one year.

An analysis of cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date is included in Note 22.

Assets available to meet these liabilities, and to cover outstanding commitments to lend AED 64,757 million (31 December 2024: AED 61,390 million), included cash, items in the course of collection and financial investment with maturity of less than one year AED 14,107 million (31 December 2024: AED 10,023 million); loans to banks AED 28,077 million (31 December 2024: AED 26,277 million), including AED 27,906 million (31 December 2024: AED 26,018 million) repayable within one year; and loans to customers AED 52,005 million (31 December 2024: AED 49,905 million), including AED 26,747 million (31 December 2024: AED 23,050 million) repayable within one year. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

Market risk

Market risk management

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

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

Market risk measures

Monitoring and limiting market risk exposures

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

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

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

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

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

Notes on the financial statements

Sensitivity analysis

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

Value at risk

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

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

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

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

Trading and non-trading portfolio

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

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

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

Value at risk of the trading and non-trading portfolio

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

Value at risk

	2025 AED000	2024 AED000
At 31 Dec	27,068	24,384
Average	22,093	37,242
Maximum	31,471	53,924
Minimum	16,189	22,798

Trading portfolios

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

Market-making and position-taking is undertaken within MSS. The average VaR for such trading intent activity at 31 December 2025 was AED 12 million (2024: AED 15 million).

VaR by risk type for the trading intent activities

	Foreign exchange ('FX') AED000	Interest rate AED000	Credit spread AED000	Total AED000
At 31 Dec 2025¹	4,250	15,042	1,757	16,765
Average	3,278	9,918	2,941	11,784
Maximum	6,205	20,471	12,183	21,573
Minimum	1,352	5,161	1,133	5,628
At 31 Dec 2024	4,121	9,528	3,000	11,853
Average	5,962	13,142	2,153	14,794
Maximum	18,096	24,743	3,637	25,294
Minimum	699	6,955	949	8,998

¹ The total VaR is non-additive across risk types due to diversification effects.

Non-trading portfolios

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

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

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

VaR by risk type for the non-trading activities

	Interest rate AED000	Credit spread AED000	Total AED000
At 31 Dec 2025	17,232	2,888	17,717
Average	16,739	3,073	17,123
Maximum	19,687	3,914	19,732
Minimum	13,927	2,694	13,833
At 31 Dec 2024	19,075	2,761	19,075
Average	26,993	2,257	26,993
Maximum	41,618	3,095	41,618
Minimum	18,853	1,273	18,853

Gap risk

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

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

The Bank incurred no material losses (2024: nil) arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2025.

De-peg risk

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

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

Capital management

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

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

The CBAUE supervises the Bank and, receives information on the capital adequacy of, and sets capital requirements for, the Bank.

► Further details in respect of the Bank's Capital requirement are set out on page 72.

25 Contingent liabilities, contractual commitments and guarantees

	2025 AED000	2024 AED000
Guarantees and other contingent liabilities		
Guarantees	47,903,382	44,042,974
Commitments		
Documentary credits and short-term trade-related transactions	3,141,866	2,518,030
Undrawn formal standby facilities, credit lines and other commitments to lend	61,615,172	58,871,722
At 31 Dec	64,757,038	61,389,752

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

Notes on the financial statements

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

	2025 AED000	2024 AED000
Guarantees and assets pledged by the bank as collateral security	7,661,133	6,024,069
At 31 Dec	7,661,133	6,024,069

Guarantees

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

	2025		2024	
	Guarantees in favour of third parties AED000	Guarantees by the Bank in favour of other HSBC Group entities AED000	Guarantees in favour of third parties AED000	Guarantees by the Bank in favour of other HSBC Group entities AED000
Financial guarantees ¹	2,034,316	344,457	1,875,077	331,167
Performance and other guarantees ²	38,207,933	7,316,676	36,143,828	5,692,902
At 31 Dec	40,242,249	7,661,133	38,018,905	6,024,069

- Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due.
- These guarantees are contracts that have similar features to financial guarantee contracts. The amounts disclosed in the above table are nominal principal amounts and reflect the Bank's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the Bank's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the Bank's annual credit review process.

Other commitments

In addition to the commitments disclosed above, at 31 December 2025 the Bank had no capital commitments to purchase, within one year, land and building and other fixed assets (2024: nil).

26 Finance lease receivables

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

	2025			2024		
	Total future minimum payments AED000	Unearned finance income AED000	Present value AED000	Total future minimum payments AED000	Unearned finance income AED000	Present value AED000
Lease receivables:						
– no later than one year	4,464	(472)	3,992	4,327	(602)	3,725
– later than one year and no later than five years	13,281	(785)	12,496	17,567	(1,385)	16,182
At 31 Dec	17,745	(1,257)	16,488	21,894	(1,987)	19,907

27 Legal proceedings and regulatory matters

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, HSBC considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2025. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent that doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

US Anti-Terrorism Act litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies, including HSBC Bank Middle East Ltd, and others on behalf of plaintiffs who are, or are related to, alleged victims of terrorist attacks in the Middle East. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act, or provided banking services to customers alleged to have connections to terrorism financing. Six actions, which seek damages for unspecified amounts, remain pending. One of these actions has been dismissed but may be appealed. The other five actions remain at an early procedural stage.

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

28 Related party transactions

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

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

HSBC Holdings plc
8 Canada Square
London
E14 5HQ

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

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

Transactions, arrangements and agreements including Key Management Personnel

Compensation of Key Management Personnel

	2025 AED000	2024 AED000
Remuneration (wages and bonus)	25,526	31,145
Post-employment benefits	1,695	976
Share-based payments (including Deferred Cash)	10,678	15,821
Termination benefits	—	3,883
Year ended 31 Dec	37,899	51,825

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

Transactions and balances during the year with Key Management Personnel

	2025		2024	
	Highest amounts outstanding during year AED000	Balance at 31 Dec AED000	Highest amounts outstanding during year AED000	Balance at 31 Dec AED000
Key Management Personnel ¹				
Loans	19,170	17,402	17,557	16,094
Deposits	48,876	25,661	28,823	10,910

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

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

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

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

	2025		2024	
	Highest balance during the year AED000	Balance at 31 Dec AED000	Highest balance during the year AED000	Balance at 31 Dec AED000
Assets				
Prepayments, accrued income and other assets	190	17	1,133	190
Liabilities				
Accruals, deferred income and other liabilities	58,336	521	38,983	987
			For the year ended 31 Dec 2025 AED000	For the year ended 31 Dec 2024 AED000
Income statement				
Other operating income			1,053	328
General and administrative expenses			6,810	9,458

Notes on the financial statements

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

	2025		2024	
	Highest balance during the year AED000	Balance at 31 Dec AED000	Highest balance during the year AED000	Balance at 31 Dec AED000
Assets				
Derivatives	3,140,939	2,457,939	3,831,897	2,799,997
Loans and advances to banks	6,375,206	6,375,206	4,158,038	1,651,479
Reverse Repurchase agreements – non-trading	13,379,538	9,027,958	11,106,512	10,758,091
Loans and advances to customers	4,418	—	2,268	420
Prepayments, accrued income and other assets	1,952,157	481,046	1,571,035	471,294
Liabilities				
Trading liabilities	2,688,321	1,541,335	2,898,931	2,145,154
Deposits by banks	3,796,246	2,493,818	3,319,978	951,379
Customer accounts	175,321	174,915	188,592	123,098
Repurchase agreements – non-trading	17,676,864	13,253,256	14,608,418	7,391,502
Financial liabilities designated at fair value	1,713,532	—	3,395,918	1,713,532
Derivatives	2,610,093	2,213,311	2,843,353	2,036,544
Other liabilities	2,029,745	1,339,548	2,891,104	997,922
Off-balance sheet				
Guarantees	7,661,134	7,661,134	6,024,069	6,024,069

	For the year ended 31 Dec 2025 AED000	For the year ended 31 Dec 2024 AED000
Income Statement		
Interest income	749,023	620,402
Interest expense	649,731	584,335
Fee income	261,909	197,895
Fee expense	102,706	142,783
Other operating income	457,489	382,517
General and administrative expenses	1,272,963	987,497

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

Transactions with HSBC Bank Middle East Limited and its subsidiaries

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

	2025		2024	
	Highest balance during the year AED000	Balance at 31 Dec AED000	Highest balance during the year AED000	Balance at 31 Dec AED000
Assets				
Derivatives	96,178	13,973	166,153	85,612
Loans and advances to banks	3,748,003	3,144,211	2,080,228	494,808
Reverse Repurchase agreements – non-trading	9,069,013	7,926,654	8,994,820	8,046,296
Loans and advances to customers	4,418	—	2,268	420
Prepayments, accrued income and other assets	319,698	224,243	395,184	273,492
Liabilities				
Deposits by banks	2,395,836	211,917	2,853,792	666,638
Customer accounts	95,065	67,758	59,601	48,480
Repurchase agreements – non-trading	737,035	38,042	273,107	30,953
Derivatives	160,873	83,406	64,031	64,031
Accruals, deferred income and other liabilities	50,132	9,257	49,240	49,240
Off-balance sheet				
Guarantees	180,206	20,206	233,820	172,742

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

29 Events after the balance sheet date

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the financial statements as at and for the period ended 31 December 2025. The Bank has reviewed recent developments in the Middle East, including the conflict involving the US, Israel, and Iran, and determined these are non-adjusting events in the context of IFRS Accounting Standards, with no impact on the financial statements. The Bank is in the process of assessing the evolving situation in order to determine its impact on the Bank's 2026 financial statements.

These accounts were approved by the management on 18 March 2026 and authorised for issue.

Additional information

This section includes information that is required to be disclosed as part of our regulatory reporting obligations or that is relevant to a complete understanding of the Bank's Annual Report and Accounts 2025 and is provided in accordance with certain best practice disclosure principles. In particular, it provides further information on the Bank's current top and emerging risks, liquidity and funding ratios, and capital requirements and structure. It also includes information about how we do business. The information in this section is not audited.

Top and emerging risks

Our current top and emerging risks are as follows:

Externally driven

Geopolitical and Macroeconomic risks

Key economic and financial risks are monitored closely. The Bank remains exposed to these risks through its operations, investments and business activity. The regional economy proved resilient to trade policy changes and geopolitical shocks through 2025, during which period oil prices remained broadly stable despite heightened geopolitical tensions in Venezuela and the Middle East. During the year we have undertaken stress tests to assess broader impacts of changes to oil prices. The recent escalation of events in the Middle East continues to evolve with potential impacts including to global energy markets and trade. We continue to monitor these events closely and will take mitigating actions as necessary.

Asset prices also rose on account of strong corporate earnings and investor enthusiasm. A key source of uncertainty is the volatility of US trade and tariff policies. Changes to tariff rates, including sector-specific levies, could further disrupt trade growth and supply chains and impose additional costs on business. Such policy uncertainty may also deter businesses from hiring. Strategic competition between the US and China, including over technology and rare earth minerals, will also keep risk and uncertainty elevated. While aggregate effective tariff rates decreased over the second half of 2025, tariffs have evolved to become a broad economic and foreign policy tool. There remains an ongoing risk that tariff rates could change rapidly and the potential for a broader trade war is also a concern.

The disruption of key supply routes caused by geopolitical conflicts has continued to impact global supply chains. The Bank is also monitoring the wider implications of US military action in Venezuela. Ongoing conflict in the Middle East following recent escalations between the US, Israel and Iran, the Russia-Ukraine war and further conflict, either in the Middle East, or elsewhere, could impact economic activity regionally which, if continued for a prolonged period, could have a material adverse effect on the Bank's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings. The US dollar depreciated significantly in 2025 driven by the narrowing of global interest rate differentials and heightened tariff and trade uncertainty. The decline marked the end of a long period of sustained appreciation against major currencies. Although the USD remains the primary trade invoicing and reserve asset currency, elevated volatility is expected to persist, reflecting concern over fiscal sustainability and an increasingly complex fiscal and monetary policy environment. Equity markets rose strongly during 2025, led by significant gains for the technology sector and increases in AI company valuations. While high asset prices may provide a tailwind to growth, there remains a risk that the expected gains to productivity from new technologies fail to materialise and that prices fall sharply as a result.

Sanctions and trade restrictions are continually evolving in response to geopolitical events, and may result in increased legal, regulatory, reputation and market risks, and a more complex operating environment. The Bank actively monitors and responds to financial sanctions and trade restrictions. Global tensions over trade and technology are resulting in divergent regulatory standards and compliance regimes, presenting long-term strategic challenges for multinational businesses such as HSBC. The Bank maintains dialogue with the regulator on the impact of legal and regulatory obligations on our business and customers.

More stringent data privacy, national security and cybersecurity laws in a number of markets could pose potential challenges to intra-Group data sharing. These developments may affect our ability to manage financial crime risks across markets due to limitations on cross-border transfers of personal information.

Environmental, social and governance ('ESG') risks

The Bank is subject to financial and non-financial risks associated with ESG related matters, such as climate change, nature-related and human rights issues. These matters can impact us both directly and indirectly through our business activities and relationships. The Bank may face credit losses if climate-related regulatory, legislative or technological developments impact customers' business models or if extreme weather events disrupt or interrupt customers' operations, resulting in financial difficulty for customers and/or stranded assets, and impacting their ability to repay their debts. Our customers may find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather.

Businesses are expected to be transparent about their efforts to identify and respond to the risk of adverse human rights impacts arising from their business activities and relationships. Failure to manage this risk may negatively impact people and communities, which in turn may result in reputational, regulatory compliance and legal risks for the Group.

Mitigating actions

- We continue to develop climate risk management capabilities across four key pillars: governance and risk appetite, risk management, stress testing and scenario analysis.
- Our sustainability risk policies form part of our broader risk management framework and are important mechanisms for managing risks. Our sustainability risk policies focus on mitigating reputational, credit, legal and other risks related to our customers' environmental and social impacts.
- Sustainability execution risk has been defined as a new risk type to help identify and manage the risks around the delivery and execution of the Group's sustainability strategy.
- In 2025, the Bank continued to focus on their approach to human rights risk management relating to the goods and services they buy from third parties and in respect of our business customers.
- We continue to engage with our customers, investors and regulators proactively on the management of climate and ESG risks.

Additional information

Financial Crime risk environment

Financial institutions remain under considerable regulatory scrutiny regarding their ability to detect and prevent financial crime. In 2025, these risks continued to be exacerbated by rising geopolitical tensions and ongoing macroeconomic factors. These challenges require managing conflicting laws and approaches to legal and regulatory regimes and implementing complex and increasingly less predictable sanctions and trade restrictions. Amid growing cost of living pressures, expatriate population growth and regulatory-driven shift in fraud liability towards FI's, the Bank continues to face increasing regulatory expectations with respect to managing internal and external fraud and protecting customers. The accessibility and increasing sophistication of Generative AI ('GenAI') brings additional financial crime risks. While there is potential for the technology to support financial crime detection, there is also a risk that criminals use GenAI to perpetrate fraud, particularly scams. The digitisation of financial services continues to have an impact on the payments ecosystem, with an increasing number of new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as banks. Developments around digital assets and currencies have continued at pace, with an increasing regulatory and enforcement focus on the financial crimes linked to these types of assets. We continue to be subject to a mutual evaluation review by the Financial Action Task Force ('FATF'). The Bank also continues to face increasing challenges presented by national data privacy requirements, which may affect our ability to manage financial crime risks across markets.

Mitigating actions

- We continue to seek to manage sanctions and trade restrictions through the use of reasonably designed policies, procedures and controls, which are subject to ongoing testing and enhancements.
- We continue to develop our fraud controls and invest in capabilities to fight financial crime through the application of advanced analytics and AI, while monitoring technological developments and engaging with third parties.
- We continue to assess the impact of a rapidly changing payments ecosystem, as well as risks associated with direct and indirect exposure to digital assets and currencies, in an effort to maintain appropriate financial crime controls.
- We engage with regulators, policymakers and relevant international bodies, to improve the effectiveness of managing financial crime risk through changes to international standards, guidance and legislation, including seeking to address data privacy challenges.

Evolving regulatory environment risk

We operate across a range of highly regulated markets, designed to protect customers, ensure the stability of the financial system and prevent financial crime. Regulatory approvals and permissions are required to operate in these markets. Volume, pace & technical complexity of regulatory change continues to accelerate. Our ability to meet short implementation timelines may be constrained, requiring the deployment of tactical solutions that may be less operationally resilient.

Mitigating actions

- We proactively engage with regulators in the region covering a range of topics which include but are not limited to: prudential requirements; operational resilience; resolvability; financial reporting and data; ESG; conduct; sound risk management and financial crime practices. We also engage with financial services regulators to inform them of changes to the business and to address their concerns, including meetings with them to discuss strategic contingency plans, including those arising from geopolitical issues.
- We monitor and track regulatory developments to understand the evolving regulatory landscape and implement necessary changes required by legislation and regulations.
- We engage with governments and regulators directly, and by responding to formal consultations, to help shape legislation and regulations to support our customers and strategic objectives.

Technology and Cyber Security Risk

Like other organisations, we operate in an extensive and complex technology landscape. We need to remain resilient to support customers, our colleagues and financial markets globally. Risks arise where, for example, technology is not understood, maintained or developed appropriately. We also continue to operate in an increasingly complex cyber threat environment globally. These threats include potential unauthorised access to systems, whether ours or those of our third-party suppliers, including access to and potential exfiltration of customer data. These threats require ongoing investment in business and technical controls to defend against them.

Mitigating actions

- We continue to upgrade many of our technology systems and are transforming how software solutions are developed, delivered, maintained and tested as part of our investment in the Group's operational resilience capabilities to seek to meet the expectations of our customers and regulators, and to help prevent disruptions to our services and recover when they occur.
- Our cyber intelligence and threat analysis team continually evaluate threat levels for the most prevalent cyber-attack types and their potential outcomes, and we continue to seek to strengthen our controls to help reduce the likelihood and impact of attacks including advanced malware, data leakage, exposure through third parties and security vulnerabilities.
- We continue to seek to enhance our cybersecurity capabilities, including infrastructure and network security, cloud security, identity and access management, metrics and data analytics, and third-party security assurance, and to invest in mitigating the potential threats of emerging technologies.
- We regularly report and review cyber risk and control effectiveness at executive level across business segments, functions and regions, as well as at non-executive Board level to help enable appropriate visibility and governance of the risk and its mitigating actions.
- We participate globally in industry bodies and working groups, working together to seek to protect against, detect, respond to and recover from cyber-attacks on financial organisations globally.
- We respond to attempts to compromise our cybersecurity in accordance with our cybersecurity framework. To date, none of these attacks have had a material impact on our business or operations.

Additional information

Digitisation and technological advance risk

Developments in technology and changes to regulations are enabling new entrants to the industry, particularly with respect to payments. This challenges us to continue innovating to address evolving customer requirements, drive efficiency and adapt our products to attract and retain customers. As a result, we may need to increase investment in our business to adapt or develop products and services to respond to our customers' evolving needs. We aim to ensure that new digital capabilities do not weaken our resilience or wider risk management capabilities.

New technologies such as GenAI, large language models, blockchain, and quantum computing not only offer business opportunities but also pose potential risks for the Group. As with the use of all technologies, we aim to maximise their potential while seeking to ensure a robust control environment is in place to help manage the inherent risks. We conduct risk assessments and have governance in place (for example on AI) to help enable Group-wide cross-risk focus on areas of emerging technology. We make public commitments as to how we engage with new technology innovation, for example publishing the Group's Principles for the Ethical Use of Data and AI.

Internally driven

Data risk

We use multiple systems and an increasing volume of data to support our customers. Risk arises if data is incorrect, unavailable, misused or unprotected. Like other banks and financial institutions, we must comply with external regulatory obligations and laws governing data, such as the Basel Committee on Banking Supervision's 239 ('BCBS239') guidelines.

Mitigating actions

- We actively monitor the quality, availability and security of data that supports our customers and internal processes, seeking to address any identified issues.
- We continue to make regular improvements to our data policies and control framework, including trusted sources, data flows and data quality, to enhance comprehensive management of data risk.
- We seek to protect customer data through our data privacy processes and controls, which set practices, design principles and guidelines to help ensure compliance with data privacy laws and regulations.
- We have established a comprehensive Risk Data Aggregation and Risk Reporting framework, seeking to ensure compliance with BCBS239 principles.
- We continue to modernise our data and analytics infrastructure through investments in cloud technology, data visualisation, machine learning and AI.
- We provide regular mandatory training globally to educate our employees on data risk management, seeking to ensure they know how to process and protect data effectively.

Risks arising from the receipt of services from third parties

We use third parties to provide a range of goods and services. It is critical that we seek to have appropriate risk management policies, processes and practices over the selection, governance and oversight of third parties and their supply chain, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations.

Mitigating actions

- We continue to monitor the effectiveness of the controls operated by our third-party providers and request third-party control reports, where required.
- We continue to develop the management of our intra-group arrangements using the same control requirements as we apply to external third-party arrangements.
- We have strengthened our due diligence and monitoring capabilities in respect of the financial stability of our third parties.
- We continue to strengthen third-party risk oversight across all nonfinancial risks and have enhanced our processes and framework.
- We continue to enhance reporting capabilities to help improve the visibility of risk and enable more robust management of our material third parties by our business segments, functions and regions.
- We are implementing changes required by new regulations.

Strategic execution risk

Effective management of strategic execution risk is essential to delivering our strategy, fulfilling shareholder expectations, and sustaining stakeholder confidence. To achieve the Group's strategic commitments, it is essential to engage in effective financial resource planning that helps ensure safe and sustainable delivery of strategic outcomes. In light of increased execution risks due to organizational simplification, including a rise in transaction volumes and initiatives to streamline operations and reduce costs, it is vital to comprehend, uphold and enhance strategic execution risk controls and monitoring.

Mitigating actions

- We have refreshed our Strategic Risk Policy to strengthen control requirements.
- We have clarified strategic execution risk management requirements and oversight accountabilities.
- The Finance Management Meeting oversees the prioritization and funding, strategic alignment, and management of strategic execution risk for transformative initiatives.
- We have updated our strategic execution risk metrics and reporting to help support improved monitoring and oversight of performance.

Additional information

Model Risk

Model risk remains a key area of focus given regulatory scrutiny in this area. We continued to provide regional model governance support ensuring full alignment with regulatory standards as per PRA SS1/23 and CBUAE MMS/G with respect to revalidation of existing models and redevelopment of new regional model use cases following internal ratings-based ('IRB') and internal model methods ('IMM'), in relation to counterparty credit, as part of the IRB repair and Basel 3.1 and Fundamental Review of the Trading Book programmes. Some models have been approved, and a number are pending approval decisions from the UK's Prudential Regulation Authority ('PRA') and other key regulators.

We also have a key focus on complying with data risk controls as per CBUAE MMS requirements including enhancement of the quality of data used as inputs in model development and implementation purpose.

Focus remains on AI and machine learning models given the rapid pace of technological advances, including the development of GenAI, is driving significant changes in modelling techniques, and regulators across the globe are beginning to publish regulations and guidance.

Mitigating actions

- We are investing in the redevelopment of our IRB models used in our wholesale businesses to enhance our modelling capability and help ensure we meet regulatory expectations for the adoption of Basel 3.1 requirements. Once approved, these models will be leveraged for regional ECL and internal risk management framework.
- We further enhanced our Model Risk Management ('MRM') framework to meet the requirements of the PRA's SS1/23 and CBUAE MMS/G with a programme of work in progress to implement these changes across our model landscape.
- We completed the identification of tools that meet the definition of Deterministic Quantitative Methods ('DQMs'), which are complex and material calculators, and although not technically models, they present similar risks. We have now commenced a programme for uplifting the controls for these DQMs.
- We have designed the Model Risk Management ('MRM') Gen AI Engagement framework to ensure that HSBC's global businesses and functions identify and classify Gen AI use cases that contribute most risk to HSBC business activities and/or firm safety and soundness.
- We made changes to our Model Risk Governance committees at the Group, business and functional levels as part of our organisational simplification to help ensure they continue to provide effective and efficient oversight of model risk.
- We have established UAE Model Oversight Committee to meet requirements mandated by Central Bank of the UAE ('CBUAE') Model Management Standards ('MMS') and provide strategic direction on the management of model risk for in-scope models within UAE and makes material modelling decisions throughout the model lifecycle.
- Model Risk Management works closely with businesses to help develop models to meet regulatory (IRB, IMM etc.), risk management, pricing, capital management, and credit risk measurement needs.

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

Our business segments and functions are exposed to risks associated with workforce capacity challenges, including challenges to retain, develop and attract high-performing employees in key labour markets, the evolving skills requirements of our workforce, increasing workforce nationalization requirements and compliance with employment laws and regulations. Failure to manage these risks may have an impact on the delivery of our strategic objectives. It could also result in poor customer outcomes or a breach of employment laws and regulations, which may lead to regulatory sanctions or legal claims.

Mitigating actions

- We seek to promote an inclusive workforce and provide health and wellbeing support. We continue to build our speak-up culture through active campaigns.
- We monitor hiring activities and levels of employee attrition, with each business and function putting in place plans to help ensure they have effective workforce forecasting to meet business demands.
- We continue to invest in recruitment and retention of local nationals.
- We monitor people risks that could arise due to the implementation of organisational restructuring, seeking to ensure that we manage redundancies sensitively and support impacted employees. We encourage our people leaders to focus on talent retention at all levels, with an empathetic mindset and approach, while ensuring the whole proposition of working at the Group is well understood.
- Our Future Skills curriculum aims to provide skills that enable employees and the Group to be successful in the future.
- We develop succession plans for key management roles, with oversight from the Group Operating Committee.
- We have introduced 'How We Lead', a refreshed culture and leadership framework designed to shape the way we operate. This initiative brings with it a new set of leadership principles, and we expect it to drive meaningful changes in our ways of working across the organisation.

Liquidity and Funding Ratios

Liquidity coverage ratio ('LCR')

LCR

	2025	2024
	%	%
31 December	256	261

Net stable funding ratio ('NSFR')

NSFR

	2025	2024
	%	%
31 December	164	148

Additional information

Capital requirement

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

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

The Bank's regulatory Capital Adequacy Ratio ('CAR') is set by the CBUAE at a minimum level of 13.00%, including capital conservation buffer ('CCB'). Additionally, the Bank is required to maintain a countercyclical buffer ('CCyB') as and when announced by CBUAE up to a maximum of 2.5%.

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

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

Capital structure at 31 December

	2025 AED000	2024 AED000
Composition of regulatory capital		
Common Equity Tier 1 capital ¹	16,893,079	15,971,920
Tier 2 capital	325,298	923,240
Total regulatory capital	17,218,377	16,895,160
Risk-weighted assets		
Credit and counterparty risk	75,060,578	73,859,198
Market risk	8,315,916	7,036,914
Operational risk	13,561,248	11,990,706
Total	96,937,742	92,886,818
Common Equity Tier 1 ratio (%)	17.43	17.20
Total Capital Ratio (%)	17.76	18.19

1 Common Equity Tier 1 capital has been reduced to reflect the proposed transfer of unremitted profits to Head Office amounting to AED 1,275 million, which is subject to regulatory approvals.

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

	2025 AED000	2024 AED000
Minimum provision for stage 1 & 2 as per CBUAE requirement	1,125,909	1,107,888
Less: Stage 1 & 2 impairment provision taken against income	325,298	214,586
Shortfall in stage 1 & 2 provision to meet minimum CBUAE requirement	800,611	893,302
Balance of Impairment reserve – General as at 1 January	893,302	778,291
Adjustment: Non-distributable reserve during the year (Impairment reserve – General)	(92,691)	115,011
Balance of Impairment reserve – General as at 31 December	800,611	893,302

Per the new credit risk management standards ('CRMS') issued by the CBUAE, Banks must ensure that the total provision corresponding to all Stage 1 and Stage 2 exposures is not less than 1.50% of the Credit Risk Weighted Assets as computed under the CBUAE capital regulations. Where the collective provisions held are lower, the shortfall may be held in a dedicated non-distributable balance sheet reserve called 'impairment reserve-general'. The amount held in the impairment reserve-general must be deducted from the capital base when computing the regulatory capital. The calculation process, methodology and results for provisions as at 31 December 2025 have been reviewed by the UAE CRO, in addition to relevant Risk Stewards. The provision results have been presented at relevant governance forums and align with the Article 9 of the Credit Risk Management Regulation including accompanying Standards, Circular No. 3/2024 dated 25 July 2024 and Notice 4613/2025 dated 19 August 2025.

Corporate governance report

Contents

73	1	Overview
73	2	Governance structure
74	3	The UAE Operating Committee
75	4	UAE Operating Committee Members
77	5	Remuneration
78	6	Assurance statement by the management

1 Overview

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

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

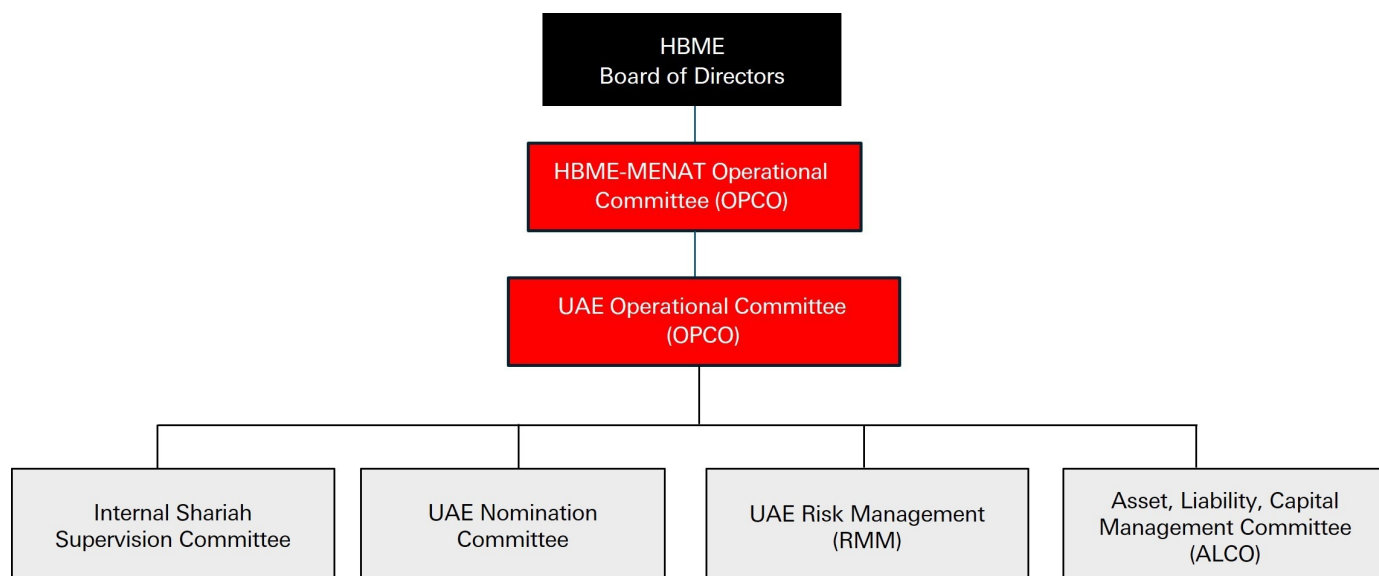
The HBME UAE Branch has its own Operating Committee ('UAE OPCO'), established as the equivalent local governance body to fulfil expectations of the UAE Corporate Governance Circular 83/2019 ('Circular 83/2019').

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

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

2 Governance structure

The Bank's simplified governance structure as at 31 December 2025 is provided below:



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

3 The UAE Operating Committee

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

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

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

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

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

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

Composition of the UAE OPCO

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

- Chief Executive Officer, UAE – Chair
- Chief Risk Officer, UAE
- Chief Financial Officer, MENAT and UAE
- Chief Operating Officer, UAE
- Chief Compliance Officer, UAE
- General Counsel, MENAT and UAE
- Head of People, MENAT and UAE
- Head of Banking, UAE
- Head of Markets and Securities Services, UAE
- Head of International Wealth and Premier Banking, UAE

Above list of OPCO members does not include standing attendees.

At 31 December 2025, the OPCO had 40% female OPCO representation, with 4 female OPCO members out of 10.

OPCO attendance in 2025

The table below sets out the attendance at UAE OPCO meetings in 2025:

Membership	Meeting attendance in 2025
Mohammed Al Marzouqi	Chief Executive Officer, UAE 6/6
Yan Bechet	Chief Operating Officer, UAE 6/6
Daniel Hankinson	Chief Financial Officer, MENAT and UAE 1/1
Anthony Wright	Chief Risk Officer, UAE 5/6
Dinesh Sharma ¹	Interim Head of International Wealth and Premier Banking, UAE and MENAT 2/6
Ayman Kolthoum	Head of Markets and Securities Services, UAE 6/6
Shaikha Al Marri	Head of Banking, UAE 5/6
Bassant Khalil	Chief Compliance Officer, UAE 6/6
Justine D Jones	General Counsel, MENAT and UAE 6/6
Nicole Whitworth	Head of People, MENAT and UAE 2/2

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

Additional information

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

Membership		Meeting attendance in 2025
Ibrahim Hayatuddini	Chief Financial Officer, UAE	5/5
Richard Van Der Meer	Head of Commercial Banking, UAE	2/2
Buthaina Binfahad	Chief Information Officer, UAE	3/4
Moustafa Raouf	Head of Human Resources, UAE	4/4

Other Committees

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

Risk Management Meeting ('UAE RMM')

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

The UAE CRO has been granted authority and accountability by the UAE Chief Executive Officer to take decisions related to matters considered at the UAE RMM, except where decision-making authority is the responsibility of another member of the UAE EXCO (e.g., finance-related decisions taken by the UAE CFO). The UAE RMM consists of Chief Risk Officer, UAE, Chief Executive Officer, UAE, Chief Operating Officer, UAE, Chief Compliance Officer, UAE & MENAT and other senior executives of the Bank most of whom are members of the Executive Committee. The UAE RMM was held seven times in 2025.

Asset & Liability Committee ('HBME-UAE ALCO')

The HBME-UAE Asset & Liability Committee ('HBME-UAE ALCO') is chaired by the MENAT Treasurer and is established as a forum, responsible for managing transfer pricing policies together with key Treasury risks covering capital, liquidity & funding, interest rate risk in the banking book ('IRRB'), and structural foreign exchange risk, while developing balance sheet optimization strategies of UAE + rest of HBME branches + legal entity, that reports into the HBME MENAT Finance Management Meeting ('MFMM') which consolidates strategic decisions spanning Finance functions, as part of the new Governance Framework Operating Rhythm ('GFOR') programme.

The HBME-UAE ALCO consists of Daniel Hankinson (Chief Financial Officer MENAT & UAE), Mohammed Al Marzouqi (Chief Executive Officer UAE), Rajesh Deshmane (Chairperson - MENAT Treasurer), Anthony Wright (Chief Risk Officer UAE), Heads of Banking Coverage, IWPB, GTS, GPS, & MSS, together with other senior executives, of whom are members of the MFMM & OPCO. The Committee (previously a separate UAE ALCO) convened five times in 2025 and each 90-minute meeting of HBME-UAE ALCO starts with the 1st part for about 1 hour covering the UAE branch, and then we move to other sites in addition to HBME legal entity in the last 30 minutes streamlining the governance.

Internal Shariah Supervision Committee ('ISSC')

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

The ISSC consists of Dr Salim Ali Salim Al-Ali (the chairman of the ISSC), Mohamed Ali Ibrahim Elgari Bineid (the deputy chairman of the ISSC), Dr.Engku Rabiah Adawiah (Member), Dr. Mousa Adam Eisa (Member), Dr. Ibrahim Almansoori (Member), and Sheikh Tariq Saeed Bujasaim (Member-Trainee). The ISSC met four times in 2025.

Nomination Committee

UAE Nomination Committee oversees the selection, appointment, and fit and proper assessments of the UAE Senior Management. Approval of the Nomination Committee is required prior to seeking UAE Senior Management appointment and/or reappointment authorisation from the CBUAE.

The Nomination Committee consists of Abdulfattah S Sharaf (HBME Chairman (Chair)), Tunde Darvai-Taylor (Regional Company Secretary) and Nicole Whitworth (Regional Head of People, MENAT and UAE)

4 UAE OPCO

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

Additional information

<p>Mohammed Al Marzouqi Chief Executive Officer, UAE Skills and experience: Mohammed has been appointed as HSBC UAE CEO in May 2023, and joined the MENAT Executive Committee regional leadership team. Mohammed is a career HSBC banker and senior leader whose wide experience since joining the Bank in the UAE in 2002 spans retail, finance, and commercial and investment banking. It encompasses roles as regional leadership positions in Commercial Banking and, most recently, Head of Global Banking UAE, a role to which Mohammed was appointed in 2021 and in which he has helped strengthen the Bank's strategic relationships across the Emirates. Mohammed holds a Bachelor Degree in Accounting from Higher Colleges of Technology in Dubai. He also completed H.H. Sheikh Mohammed Bin Rashid Leadership program for future leaders and is a Certified Management Accountant.</p>	<p>Yan Bechet Chief Operating Officer, UAE Skills and experience: Yan held senior management roles in the banking sector internationally with diverse experience in various markets across Europe and Middle East predominantly in corporate banking. His previous roles involved strategy design and implementation, large scale Group change programmes and digital implementation. Yan's previous roles include being the Deputy Head of Commercial banking in UAE, and Chief Operating Officer in Egypt. Yan graduated with an MSc in Financial Management & Control from the Aston University (Birmingham, UK) and holds a Masters in International Finance in France from Ecole Supérieure de Commerce Dijon, France, as well as graduate from Institut des Techniques Bancaires (Paris, France).</p>	<p>Dinesh Sharma Regional Head of International Wealth and Personal Banking, MENAT and Interim Head of International Wealth and Premier Banking, UAE Skills and experience: Dinesh is a seasoned business leader in consumer banking and risk management with over 30 years of experience across Asia, Europe, Middle East and North Africa. Before joining HSBC, Dinesh was the Regional Head of Wealth and Personal Banking for Middle East & North Africa for Citi bank for 6 years. Prior to that, Dinesh served as Chief Risk Officer for Wealth & Personal Banking for Citi bank, EMEA based out of London. Dinesh holds a bachelors' in Mathematical Statistics and a Masters' degree in Business Administration from University of Delhi.</p>
<p>Ayman Kolthoum Head of Markets & Security Services, UAE Skills and experience: Ayman has over 30 years of experience in Banking and Markets, worked in HSBC offices including London, UAE and Qatar. He has held several senior executive positions over a span of 28 years at HSBC and the last position being the Regional Head of Markets and Security Services Sites in MENAT region before he was appointed as Head of Markets and Security Services UAE in July 2024. Ayman holds a bachelor's degree in business administration, Banking and Finance from Emirates University, Al Ain.</p>	<p>Daniel Hankinson Chief Financial Officer, MENAT & UAE Skills and experience: Dan is the Chief Financial Officer for HSBC MENAT and UAE, with a career at HSBC since 2001 spanning senior roles in Asia, Canada, the UK, and the Middle East. He previously led the sale of HSBC Canada to RBC and has held key positions in Recovery & Resolution Planning, Asset, Liability and Capital Management, and integration projects in Indonesia. From 20 October 2025, CFO UAE responsibilities are consolidated under the CFO MENAT role. Dan holds an Accounting & Finance degree from the University of Manchester and is a Fellow of CIMA and an Associate of the Association of Corporate Treasurers.</p>	<p>Anthony W Wright Chief Risk Officer, UAE Skills and experience: Anthony Wright has over 35 years of experience in banking and financial services having worked in 9 countries, with 11 years in front line roles and 24 years in a wide range of risk management related roles. Anthony has held a number of senior roles in the UAE, the UK and Turkiye. Anthony holds a Bachelors degree and a Masters degree in Economics from Cambridge University. Anthony is also a qualified Associate of the Chartered Institute of Bankers.</p>
<p>Bassant Khalil Chief Compliance Officer, UAE Skills and experience: Bassant is a seasoned banking executive with over 20 years of international experience, currently serving as Chief Compliance Officer at HSBC UAE. She brings deep expertise in Regulatory and Financial Crime Compliance, Strategic Planning, Wealth & Personal Banking, Operations Transformation, and Enterprise-wide Risk Management. Bassant has successfully led complex change programs, navigated key regulatory examinations, and advised on material regulatory developments across multiple markets. Her leadership has driven industry collaborations, strengthened compliance frameworks, and enabled HSBC's sustainable growth and strategy delivery in the UAE and wider Region. Bassant holds a B.A. in Business Administration from the American University in Cairo and has completed advanced leadership and project management programs throughout her career.</p>	<p>Nicole Whitworth Head of People MENAT & UAE Skills and Experience: Nicole has over 20 years of experience in strategic and operational human resources management across global financial institutions. Nicole's career spans senior HR and reward roles at HSBC and other financial institutions, underpinned by a legal background and professional qualifications in company secretariat, tax, and business coaching. Nicole is recognised for her expertise in strategic HR leadership, organisational development, reward and performance management, employee relations, coaching and talent development, and is a trusted advisor to senior executives and board committees. She holds a Bachelor of Laws from University of Sussex.</p>	<p>Shaikha AlMarri Head of Banking, UAE Skills and experience: Shaikha was appointed Head of Banking UAE in April 2025, responsible for leading HSBC's client coverage in the UAE. Prior to that, she was Head of Global Banking Coverage with key responsibility of executing HSBC's growth strategy in the UAE with Governments, Government Owned/ Related Entities and Corporates based across the UAE. Shaikha joined HSBC in 2014 as Global Relationship Banker focusing on Government of Dubai, Owned / Related Entities as well as select Dubai based corporates. Shaikha started her professional career in 2007 with NASDAQ Dubai where she worked in the business development team as well as the listing authority of the exchange. Following that in 2010 Shaikha moved to work with the Financial Audit Authority of the Government of Dubai as an auditor covering the Banking and investment companies sector. Shaikha holds a Bachelor in Business Sciences with a finance concentration from Zayed University, and a Master in Finance from Judge Business School, University of Cambridge.</p>
<p>Justine Jones Regional General Counsel, MENAT & UAE Skills and experience: Justine is an English qualified solicitor but has extensive UAE legal experience, having practiced in the Middle East for the last 17 years. Justine studied Law with European Law at Nottingham University in the UK and completed her Legal Practice at Nottingham Law School. Justine started her legal career in private practice at Linklaters LLP in London, specializing in structured finance and securitization. In 2008, Justine relocated to Dubai with Linklaters where she worked until 2015 when she joined HSBC. Justine was appointed as General Counsel for the UAE and as Regional General Counsel, MENAT in July 2022.</p>		

Additional information

Appointment process of the UAE OPCO Members

The Nomination Committee oversees the selection, appointment, and fit and proper assessments of the UAE Senior Management. Approval of the Nomination Committee is required prior to seeking UAE Senior Management appointment and/or reappointment authorisation from the Central Bank of the UAE. The Nomination Committee was formed in compliance with Circular No. 4/2024, issued by the Central Bank of the UAE on the Fitness and Propriety Regulation addressing also the Authorised Individuals ('AI') and Material Risk Takers ('MRT').

5 Remuneration

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

Our approach to workforce reward is enabling a high-performance culture where colleagues are at their best and focused on excellent customer outcomes.

Our workforce reward principles and commitments guide our approach, strengthen our ability to attract, retain and motivate the people we need and energise colleagues to perform at their best:

- We reward our colleagues 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 recognise colleagues' success through our performance routines, including feedback and recognition, pay for performance, and all employees share ownership opportunities.
- We support our colleagues to grow through our proposition beyond pay, with a focus on future skills and development, support for well-being, and flexibility.

Our approach to workforce remuneration

In 2024, we made significant changes to our approach to improve colleague experience and unlock our performance edge. We introduced performance routines to support more frequent exchange of feedback and implemented a 'Target Variable Pay' plan to help improve transparency in how we make pay decisions. The year-end performance assessment was simplified to focus less on ratings and more on dialogue between managers and colleagues.

In 2025, we continued to evolve our approach and made enhancements based on the lessons learned from the first year of implementation. We continued to improve our well-being and recognition offering, which help motivate employees to perform at their best. The Group Remuneration Committee tracks various metrics to assess how we are doing and prioritise our action plans. Our approach overall is working.

Our approach to workforce reward forms part of our broader employee value proposition and helps us retain and engage the leaders and people we need to execute our strategy.

In 2026, a key priority will be to review the pay structure for our senior executives following changes to the PRA remuneration rules announced in October 2025. This review will ensure that our remuneration approach continues to support a high-performance culture, incentivises the achievement of our financial and strategic objectives, and promotes robust risk management and exemplary conduct standards.

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

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

Alignment between Risk and Reward

Our remuneration practices promote sound and effective risk management to support our business objectives and the delivery of our strategy. This is ensured through the consideration of Group performance based on a range of financial, non-financial and contextual factors when determining the variable pay pool. We use a countercyclical funding methodology, with both a floor and a ceiling, with the payout ratio generally reducing as performance increases to avoid pro-cyclicality. The floor recognises that even in challenging times, remaining competitive is important. The ceiling recognises that at higher levels of performance it is not always necessary to continue to increase variable pay, 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;
- 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.

Additional information

In the event that the Group was unable to distribute dividends to shareholders for reasons such as capital adequacy, then the Group may determine that as a year of weak performance. In such a year, the Group may withhold some, or all, variable pay for employees including unvested share awards, using the metrics outlined above as a basis for that determination.

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

Governance framework and oversight

The Group Remuneration Committee is responsible for setting the overarching principles, parameters and governance of the Group's remuneration framework for our colleagues, and the remuneration of executive Directors, the Group Chairman and other senior Group colleagues. 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. At Bank level, UAE OPCO and HBME Chairman's Committee discharges local governance requirements.

6 Assurance statement by the management

The Bank is committed to maintaining high standards of corporate governance and regularly reviews the Bank's governance framework to ensure it remains effective, adequate, and aligned with regulatory expectations. The Bank's policies and procedures are subject to ongoing review and enhancement across key areas, including Corporate Governance, Risk Management, Internal Controls, Compliance, Internal Audit, Financial Reporting, External Audit, and Outsourcing.

The Bank continues to strengthen its oversight and control mechanisms, including those related to third-party relationships and risk management. The Board ensures that governance arrangements are periodically evaluated and improved to support the Bank's strategic objectives and regulatory compliance. These efforts demonstrate the Bank's ongoing commitment to a sound and efficient governance structure that adapts to the evolving business, financial, risk and regulatory landscape.

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

Issued on: 28 January 2026

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

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards ("the Regulatory Requirements"), the Internal Shari'ah Supervision Committee of the Institution ('ISSC') presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the Institution for the financial year ending on 31 December 2025 ('Financial Year').

1 Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

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

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

2 Shari'ah Standards

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

3 Duties Fulfilled by the ISSC During the Financial Year

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

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

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

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

4 Independence of the ISSC

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

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

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

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

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

Dr. Salim Ali Al-Ali

Chairman of ISSC



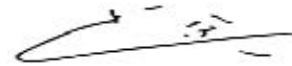
Dr. Mohamed Ali Elgari

Deputy Chairman of the ISSC



Dr. Engku Rabiah Adawiah

Member of the ISSC



Dr. Mousa Adam Eisa

Member of the ISSC



Dr Ibrahim AlMansoori

Member of the ISSC



Cautionary statement regarding forward-looking statements

This Annual Report and Accounts 2025 contains certain forward-looking statements with respect to the Bank's financial condition; Environmental, Social and Governance ('ESG') related matters; results of operations and business; and the Bank's ability to contribute to the HSBC Group's ESG targets, commitments and ambitions described herein.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. The Bank makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors, including ESG-related factors, could cause actual results, performance or other future events to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements.

The information, statements and opinions set out in this Annual Report and Accounts 2025 do not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any advice or recommendation in respect of such securities or other financial instruments.

HSBC Bank Middle East Limited

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www.hsbc.ae

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