

HSBC Bank Middle East Limited – UAE Operations

Pillar 3 Disclosures at 31 December 2025



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Introduction

Legal status and principal activities

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

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

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

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

Pillar 3 disclosures and governance

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

Our Pillar 3 disclosures as at 31 December 2025 comprises of quantitative and qualitative information required. These disclosures are in accordance with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSN/2020/4980 and CBUAE CBUAE/BSN/2021/5508) published in November 2020 and November 2021 respectively.

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

Comparatives and references

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

The table below references where comparatives have been enhanced.

Page ref	Table Reference	Activity
13	Geographical distribution of credit exposures used in the countercyclical capital buffer (CCyB1)	For the calculation of the countercyclical capital buffer, the bank assesses exposures on an "ultimate risk" basis wherever feasible.

Applicability of Disclosures

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

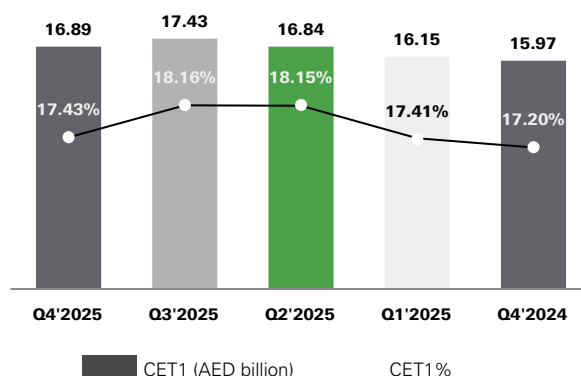
Topic	Table	Information Overview
Composition of capital	CCA	Main features of regulatory capital instruments
Liquidity	LIQ1	Liquidity Coverage Ratio
	LIQ2	Net Stable Funding Ratio
Counterparty credit risk ('CCR')	CCR8	Exposures to central counterparties
	SECA	Qualitative disclosure requirements related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

Highlights

CET1 capital and ratio

Our Common Equity Tier 1 ('CET1') capital was AED 16.89 billion as of 31 December 2025 and our ratio was 17.43%, a decrease by 73bps compared with 30 September 2025 (18.16%). This was mainly due to an increase in RWAs amounting to AED 969 million and approved dividend of AED 1.27 billion partially offset by an increase in Q4 profit of AED 588 million.

CET1 capital and ratio

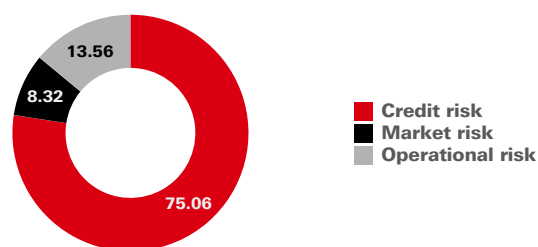


Risk Weighted Assets ('RWAs')

Our RWAs are AED 96.94 billion, an increase of AED 969 million compared with 30 September 2025. This was driven by an AED 1.57 billion increase in operational risk and an AED 1.61 billion increase in market risk, partially offset by a decrease in credit risk, mainly under the Corporate and Banks exposure classes.

RWAs by risk type

AED 96.94 billion (3Q25 – AED 95.97 billion)



Leverage

The Bank's leverage ratio was 8.07% at 31 December 2025, above the minimum regulatory requirement of 3%. The increase is due to a decrease in the total exposure measure.

Leverage

	Q4 2025	Q3 2025	Q4 2024
Leverage ratio (%)	8.07	8.00	8.62

Liquidity

The Bank's Eligible Liquid Asset Ratio ('ELAR') was 28.56% at 31 December 2025, above the minimum regulatory requirement of 10%.

Liquidity

	Q4 2025	Q3 2025	Q4 2024
ELAR (%)	28.56	26.50	23.77
ASRR (%)	61.09	64.75	64.98

The Bank's Advance to Stable Resources Ratio ('ASRR') was 61.09% at 31 December 2025, below the regulatory limit of 100%.

Overview of risk management, key prudential metrics and RWAs

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

Key Metrics (KM1)

	31 Dec 2025 AED000	30 Sep 2025 AED000	30 Jun 2025 AED000	31 Mar 2025 ⁶ AED000	31 Dec 2024 AED000	
Available capital (amounts)						
1	Common Equity Tier 1 ('CET1') ¹	16,893,079	17,430,183	16,839,070	16,149,747	15,971,920
1a	Fully loaded ECL accounting model	16,893,079	17,430,183	16,839,070	16,149,747	15,971,920
2	Tier 1	16,893,079	17,430,183	16,839,070	16,149,747	15,971,920
2a	Fully loaded ECL accounting model Tier 1	16,893,079	17,430,183	16,839,070	16,149,747	15,971,920
3	Total capital ¹	17,218,377	17,758,353	17,176,999	17,088,568	16,895,160
3a	Fully loaded ECL accounting model total capital	17,218,377	17,758,353	17,176,999	17,088,568	16,895,160
Risk-weighted assets (amounts)						
4	Total risk-weighted assets ('RWA')²	96,937,742	95,968,378	92,797,465	92,787,507	92,886,818
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	17.43	18.16	18.15	17.41	17.20
5a	Fully loaded ECL accounting model CET1 (%)	17.43	18.16	18.15	17.41	17.20
6	Tier 1 ratio (%)	17.43	18.16	18.15	17.41	17.20
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	17.43	18.16	18.15	17.41	17.20
7	Total capital ratio (%)	17.76	18.50	18.51	18.42	18.19
7a	Fully loaded ECL accounting model total capital ratio (%)	17.76	18.50	18.51	18.42	18.19
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (%)	2.50	2.50	2.50	2.50	2.50
9	Countercyclical buffer requirement (%)	0.05	0.06	0.05	0.06	0.05
10	Bank D-SIB additional requirements (%)	—	—	—	—	—
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.55	2.56	2.55	2.56	2.55
12	CET1 available after meeting the bank's minimum capital requirements (%) ³	7.26	8.00	8.01	7.92	7.69
Leverage Ratio⁴						
13	Total leverage ratio measure	209,452,176	217,799,394	206,432,790	196,823,003	185,389,140
14	Leverage ratio (%) (row 2/row 13)	8.07	8.00	8.16	8.21	8.62
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13) ¹	8.07	8.00	8.16	8.21	8.62
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.07	8.00	8.16	8.21	8.62
Eligible Liquid Assets Ratio ('ELAR')⁵						
21	Total HQLA	42,940,835	42,639,114	40,571,387	38,106,657	31,890,718
22	Total liabilities	150,367,171	160,895,282	150,835,517	142,922,615	134,190,447
23	Eligible Liquid Assets Ratio ('ELAR') (%)	28.56	26.50	26.90	26.66	23.77
Advances to Stable Resources Ratio ('ASRR')⁵						
24	Total available stable funding	124,005,654	130,328,027	115,482,031	112,687,272	112,190,284
25	Total Advances	75,760,568	84,383,661	76,885,982	76,601,310	72,899,575
26	Advances to Stable Resources Ratio ('ASRR') (%)	61.09	64.75	66.58	67.98	64.98

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

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

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

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

5 ELAR and ASRR – Refer to Eligible Liquid Assets Ratio ('ELAR') and Advances to Stables Resource Ratio ('ASRR') sections for further details (pages 30 and 31).

6 Capital adequacy and Leverage disclosures have been restated for 31 March 2025.

Overview of Risk Management (OVA)

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

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

► For further details of our risk management framework, see page 40 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Material risks

Pillar 3 requires that all material risks be disclosed to provide a comprehensive view of a Bank's risk profile. In addition to the disclosure in this document, other information on material risks can be found on page 68 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Culture

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

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

► For further details of our risk culture, see page 40 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Risk governance

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

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.

► For further details of our risk governance and ownership, see page 41 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Risk appetite

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

► For further details of our risk appetite, see page 41 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Risk and Compliance

Our Risk and Compliance function is responsible for the Bank's risk management framework. This responsibility includes establishing policy, monitoring risk profiles, and identifying and managing forward-looking risk.

Risk and Compliance is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the Risk and Compliance function is independent from the global businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

► For further details of our risk and compliance functions, see page 40 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Stress testing

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

► For further details of our stress testing programme, see page 41 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Top and emerging risks

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

► For further details of our current top and emerging risks, see page 42 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Risk Weighted Assets ('RWAs')

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

Overview of RWA (OV1)

	RWA		Minimum capital requirements ¹	
	31 Dec 2025 AED000	31 Dec 2025 AED000	30 Sep 2025 AED000	30 Sep 2025 AED000
1 credit risk (excluding counterparty credit risk)	68,622,927	7,205,407	71,162,647	7,472,078
2 – of which: standardised approach ('SA')	68,622,927	7,205,407	71,162,647	7,472,078
3 – of which: foundation internal ratings-based ('F-IRB') approach	—	—	—	—
4 – of which: supervisory slotting approach	—	—	—	—
5 – of which: advanced internal ratings-based ('A-IRB') approach	—	—	—	—
6 Counterparty credit risk ('CCR')	4,913,430	515,910	4,639,070	487,102
7 – of which: standardised approach for counterparty credit risk	4,913,430	515,910	4,639,070	487,102
8 – of which: Internal Model Method ('IMM')	—	—	—	—
9 – of which: other CCR	—	—	—	—
10 Credit valuation adjustment ('CVA')	1,524,220	160,043	1,470,894	154,444
11 Equity positions under the simple risk weight approach	—	—	—	—
12 Equity investments in funds – look-through approach	—	—	—	—
13 Equity investments in funds – mandate-based approach	—	—	—	—
14 Equity investments in funds – fall-back approach	—	—	—	—
15 Settlement risk	—	—	85	9
16 Securitisation exposures in the banking book	—	—	—	—
17 – of which: securitisation internal ratings-based approach ('SEC-IRBA')	—	—	—	—
18 – of which: securitisation external ratings-based approach ('SEC-ERBA')	—	—	—	—
19 – of which: securitisation standardised approach ('SEC-SA')	—	—	—	—
20 Market risk	8,315,916	873,171	6,704,976	704,023
21 – of which: standardised approach ('SA')	8,315,916	873,171	6,704,976	704,023
22 – of which: internal models approach ('IMA')	—	—	—	—
23 Operational risk	13,561,248	1,423,931	11,990,706	1,259,024
24 Amounts below thresholds for deduction (subject to 250% risk weight)	—	—	—	—
25 Floor adjustment	—	—	—	—
26 Total (1+6+10+11+12+13+14+15+16+20+23)	96,937,742	10,178,463	95,968,378	10,076,680

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

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

Credit risk, including counterparty credit risk

Credit risk RWAs decreased primarily due to a reduction of AED 3.12 billion in exposures within the corporate and bank exposure classes. This decrease was partially offset by an increase of AED 996 million in exposures to Public Sector Enterprises, including Government Related Enterprises.

Market risk

Market risk RWAs increased, primarily due to increase in exposure, general interest rate risk from higher net unhedged positions post-netting and higher long positions in GCC currencies.

Operation risk

Operational risk RWAs increased, primarily due to higher average gross income.

Linkages between financial statements and regulatory exposures

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

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (L11)

	31 Dec 2025					
	Carrying values as reported in published financial statements ¹	Carrying values of items:				
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	AED000	AED000	AED000	AED000	AED000	AED000
Assets						
Cash	744,984	744,984	—	—	—	—
Trading assets	6,772,314	—	6,772,314	—	6,772,314	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	192,728	192,728	—	—	—	—
Derivative	3,353,288	—	3,353,288	—	3,149,449	—
Loans and advances to banks	28,076,586	28,076,586	—	—	—	—
Loans and advances to customers	52,004,607	52,004,607	—	—	—	—
Reverse repurchase agreements – non-trading	34,879,477	—	34,879,477	—	—	—
Financial investments	38,213,010	38,213,010	—	—	—	—
Prepayments, accrued income and other assets	5,026,556	4,703,396	323,160	—	—	—
Intangible assets	826,668	—	—	—	—	826,668
Deferred tax assets	406,292	406,292	—	—	—	—
Total Assets	170,496,510	124,341,603	45,328,239	—	9,921,763	826,668
Liabilities						
Deposits from banks	5,878,533	—	—	—	—	5,878,533
Customer accounts	113,488,075	—	—	—	—	113,488,075
Repurchase agreements – non-trading	14,498,341	—	—	—	—	14,498,341
Trading liabilities	2,446,698	—	—	—	2,446,698	—
Financial liabilities designated at fair value	2,533,801	—	—	—	—	2,533,801
Derivative	2,940,341	—	2,940,343	—	2,926,625	—
Accruals, deferred income and other liabilities	7,649,041	—	—	—	—	7,649,041
Current tax liabilities	932,341	—	—	—	—	932,341
Provisions	273,763	—	—	—	—	273,763
Total Liabilities	150,640,933	—	2,940,343	—	5,373,323	145,253,895
	31 Dec 2024					
Assets						
Cash	713,194	713,194	—	—	—	—
Trading assets	6,467,554	—	6,467,554	—	6,467,554	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	38,672	38,672	—	—	—	—
Derivative	3,577,132	—	3,577,132	—	3,307,296	—
Loans and advances to banks	26,276,807	26,276,807	—	—	—	—
Loans and advances to customers	49,904,946	49,904,946	—	—	—	—
Reverse repurchase agreements – non-trading	29,761,567	—	29,761,567	—	—	—
Financial investments	31,203,765	31,203,765	—	—	—	—
Prepayments, accrued income and other assets	4,752,138	4,542,873	209,265	—	—	—
Intangible assets	775,306	—	—	—	—	775,306
Deferred tax assets	432,934	430,724	—	—	—	2,210
Total Assets	153,904,015	113,110,981	40,015,518	—	9,774,850	777,516
Liabilities						
Deposits from banks	3,714,710	—	—	—	—	3,714,710
Customer accounts	102,997,556	—	—	—	—	102,997,556
Repurchase agreements – non-trading	10,796,349	—	—	—	—	10,796,349
Trading liabilities	2,834,721	—	—	—	2,829,690	5,031
Financial liabilities designated at fair value	3,145,132	—	—	—	—	3,145,132
Derivative	2,919,179	—	2,919,179	—	2,885,362	33,817
Accruals, deferred income and other liabilities	6,988,276	—	—	—	—	6,988,276
Current tax liabilities	794,522	—	—	—	—	794,522
Provisions	517,947	—	—	—	—	517,947
Total Liabilities	134,708,392	—	2,919,179	—	5,715,052	128,993,340

1 There are no differences between HSBC UAE's scope of accounting consolidation and its scope of regulatory consolidation.

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

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

		31 Dec 2025				
		Items subject to:				
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
		AED000	AED000	AED000	AED000	AED000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	169,669,842	124,341,603	—	45,328,238	9,921,763
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	8,313,666	—	—	2,940,343	5,373,323
3	Total net amount under regulatory scope of consolidation	161,356,176	124,341,603	—	42,387,895	4,548,440
4	Off-balance sheet amounts including Derivatives	36,400,290	29,366,333	—	7,033,956	—
5	Difference due to negative MTM (Netted row 3)	2,940,343	—	—	2,940,343	—
6	Differences due to different netting rules, other than those already included in row 2	—	—	—	—	—
7	Differences due to consideration of provisions and Interest in suspense	325,288	325,288	—	—	—
8	Differences due to prudential filters	—	—	—	—	—
9	Exposure amounts considered for regulatory purposes	201,022,097	154,033,224	—	52,362,194	4,548,440

		31 Dec 2024				
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	153,126,499	113,110,981	—	40,015,518	9,774,850
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	5,715,052	—	—	2,919,179	5,715,052
3	Total net amount under regulatory scope of consolidation	147,411,447	113,110,981	—	37,096,339	4,059,798
4	Off-balance sheet amounts including Derivatives	31,466,713	26,921,969	—	4,544,745	—
5	Difference due to negative MTM (Netted row 3)	2,919,179	—	—	2,919,179	—
6	Differences due to different netting rules, other than those already included in row 2	—	—	—	—	—
7	Differences due to consideration of provisions and Interest in suspense	311,944	311,944	—	—	—
8	Differences due to prudential filters	—	—	—	—	—
9	Exposure amounts considered for regulatory purposes	182,109,283	140,344,894	—	44,560,263	4,059,798

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

Differences due to credit conversion factors

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

Differences due to consideration of provisions

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

Differences due to scope

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

Other differences

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

Fair values of financial instruments carried at fair value

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

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

- ▶ For further details of fair values of financial instruments, see page 28 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Prudent valuation adjustments

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

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

Prudent valuation adjustments (PV1)

		31 Dec 2025							
		Equity	Interest rates	FX	Credit	Commodities	Total	of which: In the trading book	of which: In the banking book
		AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
1	Closeout uncertainty, of which:	—	10,986	3,052	3,356	—	17,393	9,906	7,487
2	Mid-market value	—	4,451	1,706	498	—	6,655	4,276	2,379
3	Closeout cost	—	6,450	1,347	2,128	—	9,924	4,816	5,108
4	Concentration	—	85	—	730	—	814	814	—
5	Early termination	—	—	—	—	—	—	—	—
6	Model risk	—	—	—	—	—	—	—	—
7	Operational risk	—	1,869	308	206	—	2,383	1,618	767
8	Investing and funding costs	—	315	—	—	—	315	315	—
9	Unearned credit spreads	—	7,757	—	—	—	7,757	7,757	—
10	Future administrative costs	—	3,972	4,056	67	—	8,096	7,360	734
11	Other	—	—	—	—	—	—	—	—
12	Total adjustment	—	24,899	7,416	3,629	—	35,944	26,956	8,988

		31 Dec 2024							
1	Closeout uncertainty, of which:	—	23,152	2,092	7,570	—	32,815	19,317	13,498
2	Mid-market value	—	13,200	943	3,620	—	17,764	10,418	7,346
3	Closeout cost	—	9,931	1,149	2,119	—	13,198	7,046	6,152
4	Concentration	—	22	—	1,831	—	1,853	1,853	—
5	Early termination	—	—	—	—	—	—	—	—
6	Model risk	—	—	—	—	—	—	—	—
7	Operational risk	—	2,193	209	617	—	3,018	1,846	1,172
8	Investing and funding costs	—	574	—	—	—	574	574	—
9	Unearned credit spreads	—	2,042	—	—	—	2,042	2,042	—
10	Future administrative costs	—	7,075	4,871	236	—	12,183	10,437	1,746
11	Other	—	—	—	—	—	—	—	—
12	Total adjustment	—	35,036	7,172	8,423	—	50,632	34,215	16,416

HSBC UAE does not have any exposure to equities or commodities during 2025 and 2024. The bank enhanced the calculation methodology in line with the HSBC group reporting in 2024.

Composition of capital

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

Composition of regulatory capital (CC1)

	31 Dec 2025 AED000	31 Dec 2024 AED000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation	
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,495,255	4,495,255	Same as (a) from CC2 template
2	Retained earnings	10,936,525	10,027,028	—
3	Accumulated other comprehensive income (and other reserves)	2,333,659	2,184,725	—
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	—	—	—
5	Common share capital issued by third parties (amount allowed in group CET1)	—	—	—
6	Common Equity Tier 1 capital before regulatory deductions	17,765,439	16,707,008	—
Common Equity Tier 1 capital regulatory adjustments				
7	Prudent valuation adjustments	—	—	—
8	Goodwill (net of related tax liability)	—	—	—
9	Other intangibles including mortgage servicing rights (net of related tax liability)	826,668	775,306	—
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	—	2,210	—
11	Cash flow hedge reserve	50,521	(37,456)	—
12	Securitisation gain on sale	—	—	—
13	Gains and losses due to changes in own credit risk on fair valued liabilities	(4,829)	(4,972)	—
14	Defined benefit pension fund net assets	—	—	—
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	—	—	—
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	—	—	—
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	—	—	—
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	—	—	—
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	—	—	—
20	Amount exceeding 15% threshold	—	—	—
21	– of which: significant investments in the common stock of financials	—	—	—
22	– of which: deferred tax assets arising from temporary differences	—	—	—
23	CBUAE specific regulatory adjustments	—	—	—
24	Total regulatory adjustments to Common Equity Tier 1	872,360	735,088	—
25	Common Equity Tier 1 capital ('CET1')	16,893,079	15,971,920	—
Additional Tier 1 capital: instruments				
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	—	—	—
27	– of which: classified as equity under applicable accounting standards	—	—	—
28	– of which: classified as liabilities under applicable accounting standards	—	—	—
29	Directly issued capital instruments subject to phase-out from additional Tier 1	—	—	—
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	—	—	—
31	– of which: instruments issued by subsidiaries subject to phase-out	—	—	—
32	Additional Tier 1 capital before regulatory adjustments	16,893,079	15,971,920	—
Additional Tier 1 capital: regulatory adjustments				
33	Investments in own additional Tier 1 instruments	—	—	—
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	—
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	—
36	CBUAE specific regulatory adjustments	—	—	—
37	Total regulatory adjustments to additional Tier 1 capital	—	—	—
38	Additional Tier 1 capital (AT1)	—	—	—
39	Tier 1 capital (T1= CET1 + AT1)	16,893,079	15,971,920	—
Tier 2 capital: instruments and provisions				
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	—	—	—
41	Directly issued capital instruments subject to phase-out from Tier 2	—	—	—
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	—	—	—
43	– of which: instruments issued by subsidiaries subject to phase-out	—	—	—
44	Provisions ¹	325,298	923,240	—

Composition of regulatory capital (CC1) (continued)

	31 Dec 2025 AED000	31 Dec 2024 AED000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
45 Tier 2 capital before regulatory adjustments	325,298	923,240	—
Tier 2 capital: regulatory adjustments			
46 Investments in own Tier 2 instruments	—	—	—
47 Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	—	—	—
48 Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	—	—	—
49 CBUAE specific regulatory adjustments	—	—	—
50 Total regulatory adjustments to Tier 2 capital	—	—	—
51 Tier 2 capital ('T2')¹	325,298	923,240	—
52 Total regulatory capital (TC = T1 + T2)	17,218,377	16,895,160	—
53 Total risk-weighted assets	96,937,742	92,886,818	—
Capital ratios and buffers			
54 Common Equity Tier 1 (as a percentage of risk-weighted assets) (%)	17.43	17.20	—
55 Tier 1 (as a percentage of risk-weighted assets) (%)	17.43	17.20	—
56 Total capital (as a percentage of risk-weighted assets) (%)	17.76	18.19	—
57 Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets) (%)	2.55	2.55	—
58 – of which: capital conservation buffer requirement (%)	2.50	2.50	—
59 – of which: bank-specific countercyclical buffer requirement (%)	0.05	0.05	—
60 – of which: higher loss absorbency requirement (e.g. DSIB) (%)	—	—	—
61 Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement (%)	7.26	7.69	—
The CBUAE Minimum Capital Requirement			
62 Common Equity Tier 1 minimum ratio (%)	7.00	7.00	—
63 Tier 1 minimum ratio (%)	8.50	8.50	—
64 Total capital minimum ratio (%)	10.50	10.50	—
Amounts below the thresholds for deduction (before risk weighting)			
65 Non-significant investments in the capital and other TLAC liabilities of other financial entities	—	—	—
66 Significant investments in common stock of financial entities	—	—	—
67 Mortgage servicing rights (net of related tax liability)	—	—	—
68 Deferred tax assets arising from temporary differences (net of related tax liability)	—	—	—
Applicable caps on the inclusion of provisions in Tier 2			
69 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,125,909	1,107,888	—
70 Cap on inclusion of provisions in Tier 2 under standardised approach ¹	325,298	923,240	—
71 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	—	—	—
72 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	—	—	—
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2025)			
73 Current cap on CET1 instruments subject to phase-out arrangements	—	—	—
74 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	—	—	—
75 Current cap on AT1 instruments subject to phase-out arrangements	—	—	—
76 Amount excluded from AT1 due to cap (excess after redemptions and maturities)	—	—	—
77 Current cap on T2 instruments subject to phase-out arrangements	—	—	—
78 Amount excluded from T2 due to cap (excess after redemptions and maturities)	—	—	—

1 Change in calculation approach for provisions considered for Tier 2 capital beginning 30 June 2025, comparatives have not been restated.

Our CET1 capital ratio increased from 17.20% at 31 December 2024 to 17.43% at 31 December 2025, reflecting an increase in CET1 capital of AED 323 million. The key drivers of the overall decrease in our CET1 ratio during the year were:

- current year profit coupled with the capitalisation of prior years profit, post dividend payment.
- partially offset by higher RWAs due to an increase in asset classes that attract higher risk weights.

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

Reconciliation of regulatory capital to balance sheet (CC2)

	Balance sheet as in published financial statements	Balance sheet as in published financial statements	
	31 Dec 2025	31 Dec 2024	Reference to CC1
	AED000	AED000	
Assets			
Cash	744,984	713,194	—
Trading assets	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	3,353,288	3,577,132	—
Loans and advances to banks	28,076,586	26,276,807	—
Loans and advances to customers	52,004,607	49,904,946	—
Reverse repurchase agreements – non-trading	34,879,477	29,761,567	—
Financial investments	38,213,010	31,203,765	—
Prepayments, accrued income and other assets	5,026,556	4,752,138	—
Intangible assets	826,668	775,306	—
Deferred tax assets	406,292	432,934	—
Total Assets	170,496,510	153,904,015	
Liabilities			
Deposits from banks	5,878,533	3,714,710	—
Customer accounts	113,488,075	102,997,556	—
Repurchase agreements – non-trading	14,498,341	10,796,349	—
Trading liabilities	2,446,698	2,834,721	—
Financial liabilities designated at fair value	2,533,801	3,145,132	—
Derivatives	2,940,341	2,919,179	—
Accruals, deferred income and other liabilities	7,649,041	6,988,276	—
Current tax liabilities	932,341	794,522	—
Provisions	273,762	517,947	—
Total liabilities	150,640,933	134,708,392	—
Shareholders' equity			
Allocated Capital	4,495,255	4,495,255	(a)
Legal Reserves	2,247,628	2,247,628	—
Other Reserves	878,360	789,182	—
Unremitted Profit	12,234,334	11,663,558	—
Total shareholders' equity	19,855,577	19,195,623	—
Total liabilities and Head Office funds	170,496,510	153,904,015	

Countercyclical capital buffer

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

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

Geographical breakdown	31 Dec 2025					
	a	b		c	d	e
	Countercyclical capital buffer rate (%)	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Risk-weighted assets	Bank-specific countercyclical capital buffer rate (%) ³	Countercyclical buffer amount
Exposure values						
United Kingdom	2.00	2,344,364	655,953	0.0216	20,972	
Germany	0.75	1,729,545	153,987	0.0019	1846	
Luxembourg	0.50	1,245,333	289,282	0.0024	2,312	
South Korea	1.00	589,917	53,729	0.0009	859	
Sweden	2.00	345,871	5,190	0.0002	166	
Cyprus	1.00	325,221	279,858	0.0046	4474	
Spain	0.50	296,765	216,706	0.0018	1,732	
Denmark	2.50	239,585	220,119	0.0091	8797	
France	1.00	220,529	206,603	0.0034	3,303	
Netherlands	2.00	190,127	187,784	0.0062	6004	
Belgium	1.00	180,151	440	—	7	
Australia	1.00	94,789	68,938	0.0011	1102	
Hong Kong	0.50	46,303	27,239	0.0002	218	
Ireland	1.50	38,023	35,931	0.0009	862	
Poland	1.00	1,524	533	—	9	
Czech Republic	1.25	1,047	367	—	7	
Slovakia	1.50	405	142	—	3	
Estonia	1.50	229	80	—	2	
Sum ¹		7,889,728	2,402,881	0.0543	52,675	
Total ²		77,813,622	60,640,814			

30 Jun 2025					
United Kingdom	2.00	1,404,445	879,141	0.0288	26,699
Ireland	1.50	1,058,662	21,612	0.0005	492
Luxembourg	0.50	1,255,984	182,411	0.0015	1,385
Germany	0.75	493,220	103,355	0.0013	1,177
Cyprus	1.00	344,586	300,605	0.0049	4,565
South Korea	1.00	219,143	218,388	0.0036	3,316
France	1.00	124,703	110,788	0.0018	1,682
Netherlands	2.00	89,351	87,019	0.0028	2,643
Hong Kong	0.50	85,852	65,677	0.0005	499
Denmark	2.50	142,764	120,914	0.0049	4,590
Australia	1.00	30,560	12,862	0.0002	195
Czech Republic	1.25	1,116	391	—	7
Belgium	1.00	920	920	—	14
Sum ¹		5,251,306	2,104,083	0.0509	47,264
Total ²		77,254,646	61,112,739		

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

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

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

For the purposes of the countercyclical capital buffer (CCyB), HSBC UAE allocates exposures on an "ultimate risk" basis where the obligor has a guarantee. Prior period calculations are not restated.

Leverage ratio

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

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

		At	
		31 Dec 2025 AED000	30 Sep 2025 AED000
1	Total consolidated assets as per published financial statements ¹	170,496,510	180,565,399
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	—	—
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	—	—
4	Adjustments for temporary exemption of central bank reserves (if applicable)	—	—
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	—	—
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	—	—
7	Adjustments for eligible cash pooling transactions	—	—
8	Adjustments for derivative financial instruments	4,223,691	3,758,626
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	903,348	656,978
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	35,704,918	34,980,291
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(1,077,620)	(1,374,940)
12	Other adjustments ²	(798,671)	(786,960)
13	Leverage ratio exposure measure	209,452,176	217,799,394

1 HSBC UAE does not publish quarterly financials statements.

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

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

Leverage ratio common disclosure template (LR2)

		At	
		31 Dec 2025 AED000	30 Sep 2025 AED000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions ('SFTs'), but including collateral) ¹	129,444,846	136,716,668
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	—	—
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	(103,418)	(91,041)
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	—	—
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital) ¹	(3,485,152)	(3,513,467)
6	(Asset amounts deducted in determining Tier 1 capital)	(826,668)	(788,068)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	125,029,608	132,324,091
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	531,249	615,761
9	Add-on amounts for PFE associated with all derivatives transactions	7,149,149	6,471,748
10	(Exempted CCP leg of client-cleared trade exposures)	—	—
11	Adjusted effective notional amount of written credit derivatives	—	—
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—
13	Total derivative exposures (sum of rows 8 to 12)	7,680,398	7,087,509
Securities financing transactions			
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	40,133,904	42,750,525
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
16	CCR exposure for SFT assets	903,348	656,978
17	Agent transaction exposures	—	—
18	Total securities financing transaction exposures (sum of rows 14 to 17)	41,037,252	43,407,503
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	112,621,664	110,232,087
20	(Adjustments for conversion to credit equivalent amounts)	(76,916,746)	(75,251,796)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	—	—
22	Off-balance sheet items (sum of rows 19 to 21)	35,704,918	34,980,291
Capital and total exposures			
23	Tier 1 capital	16,893,079	17,430,183
24	Total exposures (sum of rows 7, 13, 18 and 22)	209,452,176	217,799,394
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	8.07	8.00
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8.07	8.00
26	CBUAE minimum leverage ratio requirement (%)	3.00	3.00
27	Applicable leverage buffers	—	—

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

Our leverage ratio was 8.07% at 31 December 2025, increased marginally from 8.00% at 30 September 2025. Leverage exposures decreased primarily due to lower Securities Financing Transactions ('SFTs') and other off-balance sheet exposures during the quarter. At 31 December 2025, our UAE minimum leverage ratio requirement was 3%.

Credit risk

General qualitative information about credit risk (CRA)

Credit risk management is segregated between Retail (International Wealth and Premier Banking) and Wholesale (Corporate and Institutional Banking) based on the coverage of the business lines.

Retail risk

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

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

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

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

Wholesale risk

The Wholesale Credit Risk ('WCR') department is responsible for independently reviewing credit proposals including concentration risk, overseeing and reporting on wholesale credit risk management practices, maintaining ownership of credit related policies and systems, managing portfolio oversight, and periodically reporting risk matters to senior management and regulators. As an independent risk control function, credit risk provides objective scrutiny of risk rating assessments, credit proposals, and related matters, remaining distinct from business line management.

The key objectives of HBME UAE's credit risk management are to:

- Foster a strong culture of responsible lending, supported by robust credit risk policies and controls.
- Partner with, and constructively challenge, business lines in defining, implementing, and reassessing credit risk appetite under both normal and stressed conditions.
- Ensure independent, expert evaluation of credit risks.

Credit risk exposures are measured and managed at various portfolio levels, i.e. by customer type, product category, sector, risk rating bucket etc. Risk rating systems are designed to assess both the likelihood of default and potential loss severity for individual customer relationships.

In addition, HSBC UAE employs three lines of defense model to ensure a strong control environment:

- First Line: Business lines own and manage risks, ensuring appropriate controls and assessments are in place in line with risk appetite.
- Second Line: The credit risk function provides challenge, advice, and guidance to the first line on effective risk management.
- Third Line: Global Internal Audit delivers independent assurance on the design and effectiveness of risk management processes.

This model clarifies accountability, promotes collaboration, and enables efficient coordination of risk and control activities.

WCR applies both Group-wide centralised policies and local policies to ensure compliance with HSBC global standards and local regulatory requirements. Policies and limits are set in line with applicable regulations and the Group's risk appetite. This covers credit approval authorities allocated to individual approvers based on experience and seniority, risk concentration limits which reflect internal caps, risk appetite statements, regulatory guidelines, provisioning requirements consistent with IFRS and relevant regulations.

The WCR function consists of Credit Approvers, Special Credit Unit (SCU), the Global Analytics and Portfolio Management teams. Credit Approvers and the SCU team, report to the Head of Wholesale Credit Risk Management (WCRM), MENAT, whereas the Analytics and Portfolio Management team reports to the Head of GRA and PPM. Both the Head of WCRM and Head of Global Analytics and Portfolio Management report to the Regional Chief Risk and Compliance Officer (CRCO) for MENAT.

Credit Approvers independently evaluate credit proposals, providing objective assessments of overall credit risk and making final decisions. The SCU manages customers with elevated credit risk or the customers in default, focusing on impairment assessment and maximising recoveries from doubtful debts. GRA and PPM are responsible for developing credit risk models for performing customers, supporting internal risk ratings and provisioning, monitoring concentration risks, maintaining local policies, regulatory reporting and delivering portfolio-level insights to support effective credit risk management.

Relationships between Credit Risk Management, Risk Control, Compliance and Internal Audit functions.

The Risk and Compliance function's responsibility includes setting global and local policies, including lending and regulatory guidelines, monitoring risk profiles, and proactively managing emerging risks. Operating as the second line of defence, Risk and Compliance is independent from business units such as sales and trading, ensuring robust oversight and balanced risk/return decisions. The function comprises specialised sub-teams addressing all risk types, with a central control team focused on maintaining a strong control environment and WCR dedicated to control effectiveness across financial and non-financial risks.

Internal Audit acts as the third line of defence, working collaboratively across businesses and functions to confirm the effective implementation of frameworks, policies, processes, regulatory requirements, and best practices.

Credit Risk Reporting

Key credit risks, provisioning levels, concentrations, and broader macro-economic trends are regularly reported and discussed with senior management through Regional and UAE risk governance forums. Periodic updates on credit risk are also provided to the Board Risk Committee and Group Management. In addition to risk reporting, forward-looking strategies and policy changes are communicated to executive management

► For further details of credit risk management, see page 42 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Credit quality of assets (CR1)

		31 Dec 2025					
		Gross carrying values of			of which: ECL accounting provisions for credit losses on SA exposures		
		Defaulted exposures (a)	Non-defaulted exposures (b)	Allowances/ Impairments (c)	Allocated in regulatory category of Specific	Allocated in regulatory category of General	Net values (a+b-c)
		AED000	AED000	AED000	AED000	AED000	AED000
1	Loans ¹	4,161,096	78,350,302	2,430,205	2,159,924	270,281	80,081,193
2	Debt securities ^{2,4}	—	38,214,997	1,987	—	1,987	38,213,010
3	Off-balance sheet exposures ³	60,773	30,085,376	38,693	28,672	10,021	30,107,456
4	Total	4,221,869	146,650,675	2,470,885	2,188,596	282,289	148,401,659
		31 Dec 2024					
1	Loans ¹	2,556,829	75,473,180	1,848,256	1,632,445	215,811	76,181,753
2	Debt securities ^{2,4}	—	31,208,363	4,598	—	4,598	31,203,765
3	Off-balance sheet exposures ³	36,884	27,844,980	39,774	18,104	21,670	27,842,090
4	Total	2,593,713	134,526,523	1,892,628	1,650,549	242,079	135,227,608

1 Loans represent loans and advances to customers and banks at amortized cost.

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

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

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

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

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

		At	
		31 Dec 2025	31 Dec 2024
		AED000	AED000
1	Defaulted loans and debt securities at the end of the previous reporting period	2,556,829	2,882,805
2	Loans and debt securities that have defaulted since the last reporting period	1,864,650	507,680
3	Returned to non-default status	(36,444)	(39,134)
4	Amounts written off	(298,791)	(610,823)
5	Other changes ¹	74,852	(183,699)
6	Defaulted loans and debt securities at the end of the reporting period	4,161,096	2,556,829

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

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

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

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

The IFRS 9 stages have the following characteristics:

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

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

- ▶ For further details of impairment of amortised cost and FVOCI financial assets, see page 19 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.
- ▶ For further details of credit quality of financial instruments, see page 43 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Breakdown of exposures by residual maturity

Exposures by residual maturity	31 Dec 2025											
	On Balance sheet exposure							Off Balance sheet exposure				Total
	Trading assets	Derivatives	Cash	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements non-trading	Financial investments	Other assets ¹	Loan and other credit-related commitments	Financial guarantees and similar contracts		
AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	
Due within 3 months	5,411,787	3,180,745	744,984	25,816,750	16,657,177	18,581,158	8,071,572	3,585,118	64,757,038	47,903,382	194,709,711	
Due between 3 and 12 months	231,361	29,849	—	2,089,065	10,089,447	8,321,380	5,089,722	558,363	—	—	26,409,187	
Due between 1 and 5 years	1,129,166	139,175	—	170,771	16,001,406	7,976,939	23,596,415	—	—	—	49,013,872	
Due after 5 years	—	3,519	—	—	9,256,577	—	1,455,301	2,308,763	—	—	13,024,160	
Total	6,772,314	3,353,288	744,984	28,076,586	52,004,607	34,879,477	38,213,010	6,452,244	64,757,038	47,903,382	283,156,930	

31 Dec 2024											
Due within 3 months	5,624,844	3,313,047	713,194	22,905,113	13,990,331	19,945,806	5,427,489	3,274,384	61,389,752	44,042,974	180,626,934
Due between 3 and 12 months	187,049	31,757	—	3,112,892	9,059,587	835,375	3,846,484	465,512	—	—	17,538,656
Due between 1 and 5 years	655,661	212,411	—	258,802	18,547,366	8,980,386	20,580,099	18,518	—	—	49,253,243
Due after 5 years	—	19,917	—	—	8,307,662	—	1,349,693	2,240,636	—	—	11,917,908
Total	6,467,554	3,577,132	713,194	26,276,807	49,904,946	29,761,567	31,203,765	5,999,050	61,389,752	44,042,974	259,336,741

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

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

Breakdown of exposures by industry

Exposures by industry	31 Dec 2025										
	On Balance sheet exposure						Off Balance sheet exposure				
	Trading assets	Derivatives	Cash	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements non-trading	Financial investments	Other assets	Loan and other credit-related commitments	Financial guarantees and similar contracts	Total ²
AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000	AED000
Banks	4,988,715	2,942,725	744,984	28,076,586	—	26,097,395	13,669,775	1,100,266	2,348,499	11,012,998	90,981,943
Agriculture and Allied Activities	—	—	—	—	17,099	—	—	1,368	60,436	139,076	217,979
Construction	—	2,842	—	—	2,233,965	—	—	121,244	4,092,612	7,105,830	13,556,493
Electricity, Gas and Water	14,022	38,532	—	—	2,952,171	—	57,185	39,244	2,825,401	1,177,831	7,104,386
Government	629,077	2,431	—	—	69,457	—	14,081,727	147,075	1,018,204	18,451	15,966,422
Manufacturing	—	56,742	—	—	7,387,396	—	—	545,887	7,899,370	11,498,962	27,388,357
Mining & Quarrying	12,245	—	—	—	1,102,629	—	—	1,995	2,127,439	80,033	3,324,341
Non-Bank Financial Institutions	302,839	232,549	—	—	598,896	7,985,813	—	266,580	515,500	659,791	10,561,968
Real Estate	—	1,423	—	—	2,452,949	—	—	2,423	882,738	79,255	3,418,788
Trade	—	17,782	—	—	10,020,223	—	—	1,118,226	22,106,752	6,046,195	39,309,178
Transport, Storage & Communication	884	1,393	—	—	3,448,414	—	—	40,248	5,629,516	4,251,204	13,371,659
Other Services	824,532	56,869	—	—	7,172,915	796,269	10,404,323	456,447	6,281,263	5,832,466	31,825,084
Individuals & HNIs	—	—	—	—	14,548,493	—	—	108,484	8,969,308	1,290	23,627,575
Others ¹	—	—	—	—	—	—	—	2,502,757	—	—	2,502,757
Total	6,772,314	3,353,288	744,984	28,076,586	52,004,607	34,879,477	38,213,010	6,452,244	64,757,038	47,903,382	283,156,930

31 Dec 2024											
Banks	4,704,119	3,452,515	713,194	26,276,807	—	18,595,963	11,065,347	847,185	1,562,455	9,211,373	76,428,958
Agriculture and Allied Activities	—	—	—	—	14,803	—	—	11,709	97,482	59,984	183,978
Construction	—	4,316	—	—	1,755,250	—	—	127,538	4,993,388	7,363,981	14,244,473
Electricity, Gas and Water	34,789	2	—	—	2,360,087	—	55,790	18,358	3,135,165	1,347,951	6,952,142
Government	584,187	1,644	—	—	403,609	—	19,667,702	126,316	797,980	19,309	21,600,747
Manufacturing	—	1,958	—	—	8,473,928	—	—	556,455	8,590,562	9,867,460	27,490,363
Mining & Quarrying	108,331	—	—	—	814,881	—	—	4,931	2,238,226	38,280	3,204,649
Non-Bank Financial Institutions	214,635	26,348	—	—	498,286	10,765,603	—	113,731	398,161	604,532	12,621,296
Real Estate	—	1,540	—	—	3,244,985	—	—	9,498	636,755	158,113	4,050,891
Trade	6,458	34,293	—	—	8,626,550	—	—	1,205,546	18,890,435	6,263,884	35,027,166
Transport, Storage & Communication	5,127	4,521	—	—	3,251,360	—	—	55,675	4,345,323	3,632,802	11,294,808
Other Services	809,908	49,995	—	—	8,093,556	400,001	414,926	490,975	7,360,334	5,474,004	23,093,699
Individuals & HNIs	—	—	—	—	12,367,651	—	—	160,822	8,343,486	1,301	20,873,260
Others ¹	—	—	—	—	—	—	—	2,270,311	—	—	2,270,311
Total	6,467,554	3,577,132	713,194	26,276,807	49,904,946	29,761,567	31,203,765	5,999,050	61,389,752	44,042,974	259,336,741

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

2 2024 table total has been restated.

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

Breakdown of exposures by geographical areas

Exposures by geographical areas	31 Dec 2025										
	On Balance sheet exposure						Off Balance sheet exposure				
	Trading assets AED000	Derivatives AED000	Cash AED000	Loans and advances to banks AED000	Loans and advances to customers AED000	Reverse repurchase agreements non-trading AED000	Financial investments AED000	Other assets ¹ AED000	Loan and other credit-related commitments AED000	Financial guarantees and similar contracts AED000	Total AED000
United Arab Emirates	3,496,442	371,771	744,984	22,502,725	43,299,142	11,720,635	20,215,254	5,443,212	54,518,644	29,176,157	191,488,966
GCC (Except UAE)	998,635	174,221	—	2,015,229	1,914,451	20,695,466	2,437,355	449,999	3,863,458	1,409,968	33,958,782
Europe	1,821,371	2,483,265	—	260,828	3,075,554	1,475,515	1,293,280	154,059	3,673,009	7,212,078	21,448,959
Asia	3,233	98,254	—	282,632	2,256,765	594,025	547,898	258,389	1,442,967	6,927,692	12,411,855
Others ^{1,2}	452,633	225,777	—	3,015,172	1,458,695	393,836	13,719,223	146,585	1,258,960	3,177,487	23,848,368
Total	6,772,314	3,353,288	744,984	28,076,586	52,004,607	34,879,477	38,213,010	6,452,244	64,757,038	47,903,382	283,156,930

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

- 1 Other assets includes items in the course of collection from other banks, financial assets designated and otherwise mandatorily measured at fair value through profit or loss, accrued income, other financial assets and non financial assets.
- 2 Other geographical areas majorly includes exposures to United States of America and Egypt.
- 3 We enhanced our geographical reporting processes during 4Q24.

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

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

Industry	31 Dec 2025			31 Dec 2024		
	Non Performing Loan	ECL	Write-off	Non Performing Loan	ECL	Write-off
	AED000	AED000	AED000	AED000	AED000	AED000
Construction	1,162,802	1,069,919	69,941	1,028,471	856,916	58,470
Electricity, Gas and Water	41,971	13,260	—	52,464	13,827	—
Manufacturing	1,725,912	482,838	77,504	159,091	124,145	127,519
Mining & Quarrying	48,935	44,638	—	41,967	35,000	—
Real Estate	325,750	88,963	—	428,619	69,012	97,139
Trade	220,998	178,812	7,938	235,200	192,706	119,980
Transport, Storage & Communication	4,401	4,400	—	4,116	4,115	9
Other Services	480,468	194,162	13,352	500,323	262,163	39,325
Individuals	149,859	82,932	130,056	106,578	74,561	168,381
Total	4,161,096	2,159,924	298,791	2,556,829	1,632,445	610,823

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

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

Country	31 Dec 2025			31 Dec 2024		
	Non Performing Loan	ECL	Write-off	Non Performing Loan	ECL	Write-off
	AED000	AED000	AED000	AED000	AED000	AED000
United Arab Emirates	3,585,366	2,042,770	298,791	2,442,281	1,518,375	600,215
Europe	124,565	104,271	—	114,297	114,026	10,577
Asia	450,914	12,839	—	—	—	—
Others ¹	251	44	—	251	44	31
Total	4,161,096	2,159,924	298,791	2,556,829	1,632,445	610,823

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

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

Ageing analysis of accounting past-due exposures

	31 Dec 2025					
	Gross carrying amount		Allowance for ECL		Net carrying amount	
	1 to 29 DPD AED000	30 and > DPD AED000	1 to 29 DPD AED000	30 and > DPD AED000	1 to 29 DPD AED000	30 and > DPD AED000
Industry and Past Due						
Loans and advances to customers held at amortised cost	874,718	1,944,381	(140,107)	(1,576,689)	734,611	367,692
– Corporate and commercial	600,585	1,804,712	(125,071)	(1,503,416)	475,514	301,296
– Personal banking	274,086	139,666	(15,036)	(73,273)	259,050	66,393
– Non-bank financial institutions	47	3	–	–	47	3
Other financial assets measured at amortised cost	2,225	2,368	–	(1,992)	2,225	376

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

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

Breakdown of restructured exposures between impaired and not impaired exposures

	31 Dec 2025				
	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Total
Impaired/Not impaired					
Not impaired loans	8,560	51,744	227,675	–	287,979
Impaired loans	11,115	7,996	1,962,517	–	1,981,628
TOTAL	19,675	59,740	2,190,192	–	2,269,607

31 Dec 2024					
Not impaired loans	5,780	8,448	20,905	–	35,133
Impaired loans	32,479	47,884	1,439,914	–	1,520,277
TOTAL	38,259	56,332	1,460,819	–	1,555,410

Credit risk mitigation techniques (CRC)

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

Netting

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

Collateral

The most common method of mitigating credit risk is to take collateral. In HBME UAE's retail residential and Corporate Real Estate ('CRE') businesses, a mortgage over the property is usually taken to help secure claims. Physical collateral is also taken in various forms of specialized lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors.

► For further details of collateral and other credit enhancements held, see page 58 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Valuing collaterals

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

Policies and procedures

Our internal policies and procedures safeguard HBME UAE's position, requiring standard terms or specific documentation to allow offsetting credit balances against debt, and maintaining controls over the integrity, valuation, and, if necessary, realisation of collateral.

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

Other forms of credit risk mitigation

In corporate lending, additional mitigants include guarantees from corporates and Export Credit Agencies, Credit Default Swaps, SBLCs/ financial guarantees from other FIs and insurance. Corporate guarantees are often provided within parent/subsidiary structures and cover various credit grades, while Export Credit Agencies are typically investment grade.

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

Management of residual credit risk

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

Recognition of risk mitigation under the standardised approach

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

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

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

Credit risk mitigation techniques – overview (CR3)

		31 Dec 2025					
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees ¹	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives
		AED000	AED000	AED000	AED000	AED000	AED000
1	Loans	69,288,751	5,010,135	4,623,932	7,942,276	6,795,755	—
2	Debt securities	37,620,631	—	—	1,067,331	1,067,331	—
3	Total	106,909,382	5,010,135	4,623,932	9,009,607	7,863,086	—
4	– of which: defaulted	1,066,601	6,107	6,107	1,311,796	1,041,447	—
		31 Dec 2024					
1	Loans	69,288,570	1,040,100	972,105	8,143,056	6,953,114	—
2	Debt securities	31,356,215	—	—	108,706	108,706	—
3	Total	100,644,784	1,040,100	972,105	8,251,762	7,061,820	—
4	– of which: defaulted	994,502	2,241	2,241	—	—	—

Exposures unsecured: carrying amount

- Increase in unsecured debt securities driven by higher placement in treasury bills with sovereign.

Exposures secured by collateral

- Increase in secured loan exposure is mainly driven by higher securities financing transactions with banks, with the underlying securities being pledged as collateral.

Exposures secured by financial guarantees

- Secured debt security exposures increased, mainly reflecting higher guaranteed exposures to government-related entities.

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

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

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

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

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

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

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

Asset classes		31 Dec 2025					
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount AED000	Off-balance sheet amount AED000	On-balance sheet amount AED000	Off-balance sheet amount AED000	RWA AED000	RWA density (%)
1	Sovereigns and their central banks	49,075,042	1,200,738	49,075,042	63,240	324,421	1
2	Public Sector Entities	9,812,134	8,143,443	9,812,134	2,078,801	8,434,671	71
3	Multilateral development banks	2,699,767	–	2,699,767	–	–	–
4	Banks	14,859,458	12,853,497	14,859,458	6,017,382	6,916,823	33
5	Securities firms	–	–	–	–	–	–
6	Corporates	27,441,043	79,194,195	27,441,043	20,923,870	39,677,954	82
7	Regulatory retail portfolios	5,270,745	9,015,811	5,270,745	13,584	3,700,474	70
8	Secured by residential property	9,031,765	7,615	9,031,765	–	4,084,985	45
9	Secured by commercial real estate	1,699,999	306,091	1,699,999	58,270	1,422,728	81
10	Equity Investment in Funds ('EIF')	–	–	–	–	–	–
11	Past-due loans	1,959,438	264,797	1,959,438	264,797	1,628,934	73
12	Higher-risk categories	–	–	–	–	–	–
13	Other assets ¹	2,746,717	–	2,746,717	–	2,431,937	89
14	Total	124,596,108	110,986,187	124,596,108	29,419,944	68,622,927	45

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

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

1 Includes fixed assets and other non financial assets.

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

Exposures by asset classes and risk weights (CR5)

Risk weight Asset classes		31 Dec 2025								Total credit exposures amount (post CCF and post-CRM) AED000
		0% AED000	20% AED000	35% AED000	50% AED000	75% AED000	100% AED000	150% AED000	Others AED000	
1	Sovereigns and their central banks	48,018,044	991,117	—	5,849	—	123,273	—	—	49,138,283
2	Public Sector Entities	652,391	2,593,834	—	1,457,613	—	7,187,098	—	—	11,890,936
3	Multilateral development banks	2,699,767	—	—	—	—	—	—	—	2,699,767
4	Banks	3,076,758	8,313,906	—	8,464,419	—	1,021,609	149	—	20,876,841
5	Securities firms	—	—	—	—	—	—	—	—	—
6	Corporates	5,599,524	1,257,789	—	3,446,660	—	35,675,116	—	2,385,823	48,364,912
7	Regulatory retail portfolios	651,907	—	—	527	3,726,734	905,160	—	—	5,284,328
8	Secured by residential property	—	—	7,499,489	—	288,450	1,243,826	—	—	9,031,765
9	Secured by commercial real estate	335,541	—	—	—	—	1,422,728	—	—	1,758,269
10	Equity Investment in Funds ('EIF')	—	—	—	—	—	—	—	—	—
11	Past-due loans	452,971	267,187	—	350,352	—	660,534	493,191	—	2,224,235
12	Higher-risk categories	—	—	—	—	—	—	—	—	—
13	Other assets ¹	744,964	200,538	—	—	—	1,407,472	—	393,743	2,746,717
14	Total	62,231,867	13,624,371	7,499,489	13,725,420	4,015,184	49,646,816	493,340	2,779,566	154,016,053

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

1 Includes fixed assets and other non-financial assets.

Counterparty credit risk ('CCR')

Qualitative disclosure related to counterparty credit risk (CCRA)

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

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

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

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

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

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

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

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

General wrong way risk

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

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

Specific wrong way risk

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

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

Wrong way risk measurement and controls

The Bank follows a country based framework for WWR trades.

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

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

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

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

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

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

Wrong Way Risk exposure

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

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

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

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

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

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

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

	31 Dec 2025					
	Replacement cost AED000	Potential future exposure AED000	EEPE AED000	Alpha used for computing regulatory EAD	EAD post-CRM AED000	RWA AED000
SA-CCR (for derivatives)	379,463	4,915,836	—	1.40	7,413,420	4,102,535
Internal Model Method (for derivatives and SFTs)	—	—	—	—	—	—
Simple Approach for credit risk mitigation (for SFTs)	—	—	—	—	—	—
Comprehensive Approach for credit risk mitigation (for SFTs)	—	—	—	—	40,349,671	810,895
VaR for SFTs	—	—	—	—	—	—
Total	—	—	—	—	—	4,913,430

31 Dec 2024						
SA-CCR (for derivatives)	718,098	2,898,392	—	1.4	5,063,087	2,683,566
Internal Model Method (for derivatives and SFTs)	—	—	—	—	—	—
Simple Approach for credit risk mitigation (for SFTs)	—	—	—	—	—	—
Comprehensive Approach for credit risk mitigation (for SFTs)	—	—	—	—	34,622,309	1,369,020
VaR for SFTs	—	—	—	—	—	—
Total	—	—	—	—	—	4,052,586

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

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

		At			
		31 Dec 2025 EAD post-CRM AED000	31 Dec 2025 RWA AED000	31 Dec 2024 EAD post-CRM AED000	31 Dec 2024 RWA AED000
1	All portfolios subject to the Standardised CVA capital charge	8,316,768	1,524,220	5,655,668	976,084
2	All portfolios subject to the Simple alternative CVA capital charge	—	—	—	—

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

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

Risk weight Regulatory portfolio	31 Dec 2025							Total credit exposure AED000
	0% AED000	20% AED000	50% AED000	75% AED000	100% AED000	150% AED000	Others AED000	
Sovereigns	24,648	—	—	—	—	—	—	24,648
Public Sector Entities ('PSEs')	896,303	11,553	340,899	—	97,701	—	—	1,346,457
Multilateral development banks ('MDBs')	—	—	23,786	—	—	—	—	23,786
Banks	21,889,686	2,752,076	4,035,247	—	57,384	—	—	28,734,392
Securities firms	—	—	—	—	—	—	—	—
Corporates	15,535,142	95,463	33,391	—	1,969,705	107	—	17,633,807
Regulatory retail portfolios	—	—	—	—	—	—	—	—
Secured by residential property	—	—	—	—	—	—	—	—
Secured by commercial real estate	—	—	—	—	—	—	—	—
Equity Investment in Funds ('EIF')	—	—	—	—	—	—	—	—
Past-due loans	—	—	—	—	—	—	—	—
Higher-risk categories	—	—	—	—	—	—	—	—
Other assets ¹	4,599,104	—	—	—	—	—	—	4,599,104
Total	42,944,883	2,859,092	4,433,323	—	2,124,790	107	—	52,362,194

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

31 Dec 2024

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

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

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

Composition of collateral for CCR exposure (CCR5)

	31 Dec 2025					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	AED000	AED000	AED000	AED000	AED000	AED000
Cash – domestic currency	—	—	—	—	—	—
Cash – other currencies	—	905,987	—	103,418	—	—
Domestic sovereign debt	—	—	—	—	3,711,787	—
Government agency debt	—	—	—	—	19,997,748	—
Corporate bonds	—	—	—	—	8,600,873	—
Equity securities	—	—	—	—	—	—
Other collateral ¹	—	—	—	—	6,010,722	—
Total	—	905,987	—	103,418	38,321,131	—

31 Dec 2024						
Cash – domestic currency	—	—	—	—	—	—
Cash – other currencies	—	942,712	—	107,972	—	—
Domestic sovereign debt	—	—	—	—	1,358,151	—
Government agency debt	—	—	—	—	16,928,908	—
Corporate bonds	—	—	—	—	6,957,994	—
Equity securities	—	—	—	—	—	—
Other collateral ¹	—	—	—	—	7,144,650	—
Total	—	942,712	—	107,972	32,389,703	—

1 Other collateral includes reverse repos with banks.

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

Credit derivative exposures (CCR6)

	Protection bought	Protection sold	Protection bought	Protection sold
	31 Dec 2025	31 Dec 2025	31 Dec 2024	31 Dec 2024
	AED000	AED000	AED000	AED000
Notionals				
Single-name credit default swaps	642,688	736,336	642,688	477,425
Index credit default swaps	—	—	—	—
Total return swaps	—	—	—	—
Credit options	—	—	—	—
Other credit derivatives	—	—	—	—
Total notionals	642,688	736,336	642,688	477,425
Fair values				
Positive fair value (asset)	—	694	—	33
Negative fair value (liability)	(9,806)	(640)	(9,472)	(1,597)

Market risk

General qualitative disclosure requirements related to market risk (MRA)

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

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

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

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

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

Risk profile

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

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

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

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

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

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

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

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

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

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

Limit Proposal, Approvals and Set up

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

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

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

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

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

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

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

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

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

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

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

Limit monitoring

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

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

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

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

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

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

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

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

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

► Further details on market risk, see page 62 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

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

	31 Dec 2025	31 Dec 2024
	RWA	RWA
	AED000	AED000
1 General Interest rate risk (General and Specific)	5,487,855	4,432,932
2 Equity risk (General and Specific)	—	—
3 Foreign exchange risk	2,828,061	2,603,982
4 Commodity risk	—	—
6 Options	—	—
5 Simplified approach	—	—
6 Delta-plus method	—	—
7 Scenario approach	—	—
8 Securitisation	—	—
9 Total	8,315,916	7,036,914

The increase in market risk RWAs under the standardised approach, mainly driven by

General Interest rate risk (General and Specific)

Higher net unhedged positions post-netting. This was partly offset by a reduction in Specific Interest Rate Risk RWAs, reflecting lower exposures to GCC sovereign and other sovereign counterparties.

Foreign exchange risk

Increase primarily driven by GCC currencies and USD due to lower long positions.

Operational risk

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

HSBC UAE adopts the group's Risk Management Framework ('RMF') to manage financial and non-financial risks (or operational risks). The RMF sets out our approach to governance, risk management, and the principles for our management of non-financial risks and associated controls. Responsibility for managing non-financial risk lies with our people. During 2025, the bank remained focused on strengthening the approach to managing non-financial risk. We continue to enhance the framework and tools for strengthening the control environment and to improve practices in the management of non-financial risk. The main non-financial risk categories defined by the bank include regulatory compliance, financial crime, legal, resilience risk (which includes technology, data and cyber security risk), financial reporting and tax, people and model risks. Climate risk has impacts across the risk taxonomy, and risk stewards accountability includes the oversight of climate risk impacts to their respective risk types. The RMF includes detailed requirements to identify, assess, manage, aggregate, report and govern non-financial risks across all businesses and functions. There are detailed technical user guides to support the procedures and activities needed for complying with the HSBC's RMF that enables the consistent and effective management of operational risk as part of its business operations and processes. A risk appetite framework defines the requirements for setting and monitoring of the bank's risk appetite to ensure that the bank operates within the appetite set by the board.

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

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

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

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

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

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

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

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

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

Non-financial risk reporting is an important part of the Bank's RMF. NFR forms part of a standard agenda of the HSBC UAE Risk Management Meeting (RMM) as delegated by HBME UAE Operating Committee (OpCo), where NFR reports are presented and discussed. The scope of the reporting includes risk profile reports, top and emerging risks, risk appetite statements and thematic risk papers. HSBC UAE RMM notifies or escalates any key matter to HBME UAE OpCo if decided. HELIOS is the Bank's core NFR system of record and is used as the basis of NFR reporting.

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

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

Liquidity

Liquidity risk management (LIQA)

Overview

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

- ▶ Further details of the our liquidity and funding, see page 61 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Liquidity coverage ratio

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

Net stable funding ratio

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

- ▶ Further details of the our liquidity and funding ratios, see page 61 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

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

- ▶ Further details of maturity analysis of assets ,liabilities and off balance sheet commitments see page 37 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

Stress testing

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

- ▶ Further details of our stress testing programme, see page 41 and 61 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.
- ▶ Further details of our liquidity and funding, see page 61 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Eligible Liquid Assets Ratio ('ELAR')

	31 Dec 2025	31 Dec 2025	30 Sep 2025	30 Sep 2025
	Nominal amount	Eligible Liquid Asset	Nominal amount	Eligible Liquid Asset
	AED000	AED000	AED000	AED000
1 High Quality Liquid Assets				
1.1 Physical cash in hand at the bank + balances with the CBUAE	16,567,707		15,337,988	
1.2 UAE Federal Government Bonds and Sukuks	19,130,391		20,154,126	
Sub Total (1.1 to 1.2)	35,698,098	35,698,098	35,492,114	35,492,114
1.3 UAE local governments publicly traded debt securities	801,156		750,713	
1.4 UAE Public sector publicly traded debt securities	–		–	
Sub total (1.3 to 1.4)	801,156	801,156	750,713	750,713
1.5 Foreign Sovereign debt instruments or instruments issued by their respective central banks	6,444,621	6,441,581	6,399,085	6,396,287
1.6 Total	42,943,875	42,940,835	42,641,912	42,639,114
2 Total liabilities		150,367,171		160,895,282
3 Eligible Liquid Assets Ratio ('ELAR') (%)		28.56		26.50

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

Advances to Stables Resource Ratio ('ASRR')

		At	
		31 Dec 2025	30 Sep 2025
		AED000	AED000
1	Computation of Advances		
1.1	Net Lending (gross loans – specific and collective provisions + interest in suspense)	52,914,563	54,068,131
1.2	Lending to non-banking financial institutions	9,062,055	12,052,088
1.3	Net Financial Guarantees & Stand-by LC (issued – received)	164,176	372,431
1.4	Interbank Placements	13,619,774	17,891,011
1.5	Total Advances	75,760,568	84,383,661
2	Calculation of Net Stable Resources		
2.1	Total capital + general provisions	20,179,294	19,482,047
	Deduct:		
2.1.1	Goodwill and other intangible assets	826,668	788,069
2.1.2	Fixed Assets	857,102	865,678
2.1.3	Funds allocated to branches abroad	–	–
2.1.5	Unquoted Investments	–	560,772
2.1.6	Investment in subsidiaries, associates and affiliates	–	–
2.1.7	Total deduction	1,683,770	2,214,519
2.2	Net Free Capital Funds	18,495,524	17,267,528
2.3	Other stable resources:		
2.3.1	Funds from the head office	–	–
2.3.2	Interbank deposits with remaining life of more than 6 months	6,175,961	5,595,964
2.3.3	Refinancing of Housing Loans	–	–
2.3.4	Borrowing from non-Banking Financial Institutions	6,624,246	14,136,916
2.3.5	Customer Deposits	91,398,511	92,513,568
2.3.6	Capital market funding/term borrowings maturing after 6 months from reporting date	1,311,412	814,051
2.3.7	Total other stable resources	105,510,130	113,060,499
2.4	Total Stable Resources (2.2+2.3.7)	124,005,654	130,328,027
3	Advances to Stable Resources Ratio (1.5/2.4*100) (%)	61.09	64.75

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

IRRBB risk management objectives and policies (IRRBBA)

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

Regional Treasury governs and controls IRRBB. This includes:

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

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

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

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

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

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

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

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

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

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

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

NII and its sensitivity is calculated for material currencies.

Quantitative information

- Average repricing maturity assigned to NMDs 2.2 years – (2024 – 1.9 years).
- Longest repricing maturity assigned to NMDs 5.9 years – (2024 – 5 years).

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

Quantitative information on IRRBB (IRRBB1)

Period	Δ EVE	Δ NII	Δ EVE	Δ NII
	31 Dec 2025		31 Dec 2024	
	AED000	AED000	AED000	AED000
Parallel up	(340)	786	(492)	785
Parallel down	443	(800)	582	(804)
Steeper	(243)	—	(146)	—
Flattener	54	—	54	—
Short rate up	(167)	—	(141)	—
Short rate down	80	—	152	—
Maximum	—	—	—	—
Tier 1 capital	16,893,079		15,971,920	

Remuneration

Remuneration policy (REMA)

Introduction

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

Our 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 employee 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.

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

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

Our approach to workforce reward

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.

Overview of remuneration structure for employees

We set out below the key features of our remuneration framework, which applies on a Group-wide basis, subject to compliance with local laws. Our remuneration framework for the wider workforce includes fixed and variable pay elements, and the application of deferral, retention, malus and clawback policies to variable pay.

	Remuneration components and objectives	Application for Group employees
Fixed pay	Salary and allowances	<ul style="list-style-type: none"> We provide market competitive pay for the role, skills and experience required. In addition to base salary, fixed pay may also include fixed pay allowances, cash in lieu of pension and other cash allowances in accordance with local market practice. Fixed pay may change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities and experience.
	Benefits and pension	<ul style="list-style-type: none"> Benefits may include, but are not limited to, the provision of pension, medical insurance, life insurance and health assessment in accordance with local market practice.
Variable pay	Annual incentive	<ul style="list-style-type: none"> All colleagues are eligible to be considered for a discretionary variable pay award. Individual awards are determined against performance goals set at the start of the year. Variable pay represents a higher proportion of total compensation for more senior colleagues to strengthen alignment between total compensation and business performance. Variable pay for employees is limited to 10 times fixed pay, except where local regulations require otherwise. For employees identified as Material Risk Taker (MRT) under UAE Central Bank requirement the variable pay is capped at 200% of annual Fixed Pay. Awards are generally paid in cash and shares. For employees identified as Group material risk takers ('MRTs'), at least 50% of the awards are in shares and/or where required by regulations, in units linked to asset management funds.
	Long-term incentive	<ul style="list-style-type: none"> Members of the Group Operating Committee are also eligible to be considered for a long-term incentive award which is subject to three-year forward-looking performance measures, similar to the executive Directors.
Policies applicable to variable pay	Deferral	<ul style="list-style-type: none"> A Group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares, vesting annually over a three-year period (33% vesting on the first and second anniversaries of grant and 34% on the third). Awards for MRTs are paid in line with the PRA and FCA remuneration rules, and in compliance with local regulations for those identified as MRT under UAE Central Bank regime. Variable pay for MRTs under the PRA remuneration rules ('Group MRTs'), excluding executive Directors, are subject to a four-year deferral period. For all Group MRTs and the majority of local MRTs, excluding executive Directors, a minimum 50% of the deferred awards is in HSBC shares with the remaining portion in deferred cash. Local regulatory requirements would apply where necessary. For some employees in our asset management business, where required by the relevant regulations, at least 50% of the deferred award is linked to fund units reflective of funds managed by those entities, with the remaining portion in deferred cash awards. Variable pay awards made in HSBC shares or linked to relevant fund units granted to MRTs that are immediately vested are generally subject to a one-year retention period post-vesting.
	Anti-hedging	<ul style="list-style-type: none"> All employees are subject to an anti-hedging policy, which prohibits employees from entering into any personal hedging strategies in respect of HSBC securities.
	Malus and clawback	<ul style="list-style-type: none"> All deferred awards are subject to malus provisions, subject to compliance with local laws. All awards granted are subject to clawback.
Recruitment remuneration	Buy-out awards	<ul style="list-style-type: none"> Buy-out awards may be offered if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer. The terms of the buy-out awards will not be more generous than the terms attached to the awards forfeited on cessation of employment with the previous employer.
	New hire indicative variable pay	<ul style="list-style-type: none"> New hire indicative variable pay is awarded in exceptional circumstances, typically involving a critical senior new hire, and is limited to an individual's first year of employment only. The award is subject to a number of factors (such as the respective performance of the Group, business unit and individual), and the final value paid remains at the full discretion of HSBC.
Policy for loss of office	Severance payments	<ul style="list-style-type: none"> Where an individual's employment is terminated involuntarily for gross misconduct then, subject to compliance with local laws, the Group's policy is not to make any severance payment, and all outstanding unvested awards are forfeited. For other cases of involuntary termination of employment, the determination of any severance will take into consideration the performance of the individual, contractual notice period, applicable local laws and circumstances of the case. Severance amounts awarded to MRTs are not considered as variable pay for the purpose of application of the deferral and variable pay cap rules under the PRA and FCA remuneration rules.
	Unvested awards	<ul style="list-style-type: none"> Generally, for good leavers, all outstanding unvested awards will normally continue to vest in line with applicable vesting dates. Where relevant, any performance conditions attached to the awards, and malus and clawback provisions, will remain applicable to those awards.

Governance framework and oversight

The Group Chairman, Chair of the Group Risk Committee, Group CEO, Group Chief Risk and Compliance Officer, Group Chief People & Governance Officer, Group Chief Legal Officer, and Group Head of Performance and Reward, routinely and selectively attend Committee meetings.

No Director is present at Committee meetings when their own remuneration is discussed.

The Chair and members of the Committee hold private meetings with the Committee's independent adviser, following scheduled Committee meetings. Outside of formal meetings, the Chair meets regularly with key stakeholders, including senior management, investors, proxy advisers and regulators to help inform the broader decision-making of the Committee.

The Chair also meets regularly with the Committee Secretary to ensure the Committee fulfils its governance responsibilities, to consider input from stakeholders when finalising meeting agendas and track progress on actions and priorities.

A copy of the Committee’s terms of reference can be found on our website at www.hsbc.com/who-we-are/our-people/board-of-directors/board-committees.

For HBME UAE branch, all matters of remuneration for Local MRT requirement is overseen by local senior management executive committee and HBME Chairman’s committee.

Committee performance review

In 2025, the annual review of the performance of the Board committees, including the Committee, was facilitated internally by the Group Chief People and Governance Officer. The review concluded that the Committee continued to operate effectively.

The outcomes of the performance review have been reported to the Board, and the Committee will progress and track those areas identified for enhancement through 2026.

Link between risk, performance and reward

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

Framework elements	Application
Variable pay	<ul style="list-style-type: none"> – Group variable pay is expected to reflect Group performance, based on a range of financial and non-financial factors. We use a countercyclical funding methodology with a structured payout range for different levels of profitability and guided by a floor and a ceiling. The payout ratio generally reduces 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: <ul style="list-style-type: none"> – 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 resourcing plan and global conduct outcomes; and – fines, penalties and provisions for customer redress, which are automatically included in the Committee’s definition of profit for determining the pool. – In the event that the Group was unable to distribute dividends to shareholders for reasons such as capital adequacy, then the Group may determine that as a year of weak performance. In such a year, the Group may withhold some, or all, variable pay for employees including unvested share awards, using the metrics outlined above as a basis for that determination. – The Committee also applies its discretion to adjust the pool either upwards or downwards based on a recommendation by the GRC which takes into account a full assessment of risk performance.
Individual performance	<ul style="list-style-type: none"> – Assessment of individual performance is made with reference to clear and relevant financial and non-financial goals. Senior management have a goal on effective management of enterprise risk, regulatory compliance and financial crime risk responsibilities as well as financial risks. The goal is independently assessed by Risk and Compliance and a risk and compliance rating, and assessment is shared with the individual and their line managers to consider as part of the year-end review. All other employees have a mandatory risk and compliance goal. – Performance assessment for all employees includes a behaviour gateway (if permissible under local laws), and a full assessment of achievement against goals and demonstration of HSBC values aligned behaviours. This ensures that performance is assessed not only on what is achieved but also on how it is achieved.
Control function staff	<ul style="list-style-type: none"> – Group policy is for control functions staff to report into their respective function. Remuneration decisions for senior functional roles are made by the global function head. – The performance and reward of individuals in control functions, including risk and compliance colleagues, are assessed according to a balanced scorecard of goals specific to the functional role they undertake.
Variable pay adjustments and conduct recognition	<ul style="list-style-type: none"> – Variable pay awards may be adjusted upwards or downwards to reflect positive or negative conduct in adherence with the Code of Conduct. Downward adjustments can be made in circumstances including: <ul style="list-style-type: none"> – detrimental conduct, including conduct that brings HSBC into disrepute. – involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and – non-compliance with the values-aligned behaviours and other mandatory requirements or policies. – Rewarding positive conduct can be through use of our global recognition platform, At Our Best, or positive adjustments to variable pay awards.
Malus	<ul style="list-style-type: none"> – Malus can be applied to unvested deferred awards (up to 100% of awards) granted in prior years in circumstances including: <ul style="list-style-type: none"> – detrimental conduct, including conduct that brings the business into disrepute. – past performance being materially worse than originally reported. – restatement, correction or amendment of any financial statements; and – improper or inadequate risk management.
Clawback	<ul style="list-style-type: none"> – Clawback can be applied to vested or paid awards granted to MRTs for a period of seven years, extended to 10 years for employees in PRA and FCA designated senior management functions in the event of ongoing internal/regulatory investigation at the end of the seven-year period. Clawback can also be applied to non-MRTs. Clawback may be applied in circumstances including: <ul style="list-style-type: none"> – participation in, or responsibility for, conduct that results in significant losses. – failing to meet appropriate standards and propriety. – reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and – a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures. – Clawback can also be applied to vested or paid awards granted to designated Executive Officers as defined by the US Securities and Exchange Commission (‘SEC’) for a period of three years in the event of an accounting restatement due to material non-compliance with any financial reporting requirement under the US securities laws.

Framework elements	Application
Sales incentives	– We generally do not operate commission-based sales plans, unless aligned with local market practice and with appropriate safeguards to avoid incentivising inappropriate sales behaviours.
Identification of MRTs	<ul style="list-style-type: none"> – We identify individuals as MRTs based on qualitative and quantitative criteria set out in the PRA's and FCA's Remuneration Rules. Our identification process is underpinned by the following key principles: <ul style="list-style-type: none"> – MRTs are identified at Group, HSBC Bank (consolidated) and at country/entity level as required by regulation. – MRTs are also identified at other solo regulated entity level as required by the regulations. For HBME UAE in addition to identifying MRT per Group policy MRT are also identified as per UAE Central Bank Corporate Governance Regulations & Standards. – Under the UAE Central Bank Requirement, the following roles but not limited to were considered for identification of MRT: <ul style="list-style-type: none"> – UAE CEO and Senior Management which includes Heads of Businesses – Heads of Control Functions – Head of Credit Risk – Members of Risk team in credit approval authority with a limit/authority as defined by Group threshold. – Traders over a Group defined mandate/threshold. – When identifying an MRT, HSBC considers a colleague's role within its matrix management structure. The global business and function that an individual works within takes precedence, followed by the geographical location in which they work. – We also identify additional MRTs based on our own internal criteria, which include compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under the Remuneration Rules. – Remuneration structure for MRTs identified under each regulation is aligned to prescribed MRT Compensation rules.

► Further details of our remuneration policy, see page 77 of the HSBC Bank Middle East Limited – UAE Operations Financial Statements.

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

Remuneration awarded during the financial year (REM1)

Remuneration Amount			Senior Management	Other Material Risk-takers	Senior Management	Other Material Risk-takers
			31 Dec 2025 AED000	31 Dec 2025 AED000	31 Dec 2024 AED000	31 Dec 2024 AED000
1	Fixed Remuneration	Number of employees	11	5	20	4
2		Total fixed remuneration (3 + 5 + 7)	19,283	6,291	22,687	3,851
3		of which: cash-based	19,283	6,291	22,687	3,851
4		of which: deferred	—	—	—	—
5		of which: shares or other share-linked instruments	—	—	—	—
6		of which: deferred	—	—	—	—
7		of which: other forms	—	—	—	—
8		of which: deferred	—	—	—	—
9	Variable Remuneration	Number of employees	11	5	20	3
10		Total variable remuneration (11 + 13 + 15)	19,101	3,011	23,555	1,680
11		of which: cash-based	11,557	1,746	13,302	963
12		of which: deferred	3,335	490	5,323	287
13		of which: shares or other share-linked instruments	7,544	1,265	10,253	717
14		of which: deferred	4,997	531	6,090	287
15		of which: other forms	—	—	—	—
16		of which: deferred	—	—	—	—
17	Total Remuneration (2+10)	38,384	9,302	46,242	5,531	

Senior manager headcount has decreased. While the number of in-scope roles remains unchanged, 2024 leavers and interim cover arrangements meant some roles were reported with more than one incumbent during the year.

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

Special payments (REM2)

	31 Dec 2025					
	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount AED000	Number of employees	Total amount AED000	Number of employees	Total amount AED000
Senior Management	—	—	—	—	—	—
Other material risk-takers	—	—	—	—	—	—
	31 Dec 2024					
Senior Management	—	—	—	—	3	3,823
Other material risk-takers	1	400	—	—	—	—

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

Deferred remuneration (REM3)

Deferred and retained remuneration	31 Dec 2025				
	Total amount of outstanding deferred remuneration AED000	of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment AED000	Total amount of amendment during the year due to ex post explicit adjustments AED000	Total amount of amendment during the year due to ex post implicit adjustments AED000	Total amount of deferred remuneration paid out in the financial year AED000
	Senior management	26,157	19,495	—	5,761
Cash	6,339	—	—	—	1,301
Shares	18,638	18,638	—	5,375	3,613
Cash-linked instruments	—	—	—	—	—
Other ¹	1,180	1,180	—	385	234
Other material risk-takers	3,720	2,616	—	771	914
Cash	1,104	—	—	—	277
Shares	2,616	2,616	—	771	637
Cash-linked instruments	—	—	—	—	—
Other ¹	—	—	—	—	—
Total	29,877	22,111	—	6,531	6,062
	31 Dec 2024				
Senior management	30,666	20,192	—	4,351	6,162
Cash	10,474	—	—	—	2,299
Shares	19,936	19,936	—	4,301	3,636
Cash-linked instruments	—	—	—	—	—
Other ¹	257	257	—	50	228
Other material risk-takers	1,596	1,019	—	219	390
Cash	577	—	—	—	172
Shares	1,019	1,019	—	219	218
Cash-linked instruments	—	—	—	—	—
Other ¹	—	—	—	—	—
Total	32,263	21,212	—	4,570	6,552

1 Other includes share-linked instruments.

Senior manager headcount has decreased. While the number of in-scope roles remains unchanged, 2024 leavers and interim cover arrangements meant some roles were reported with more than one incumbent during the year. (Please refer to page 35).

HSBC Bank Middle East Limited

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HSBC Bank Middle East Limited

Incorporated in the Dubai International Financial Centre.

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

lead regulated by the Dubai Financial Services Authority

HSBC Bank Middle East Limited – UAE Operations