HSBC Bank Middle East Limited

Annual Report and Accounts 2022

HSBC

Contents

Presentation of Information

This document comprises the *Annual Report and Accounts 2022* for HSBC Bank Middle East Limited ('the bank') and its subsidiary undertakings (together 'the group'). It contains the Report of the Directors, Financial Statements together with the Auditor's report and Additional information. References to 'HSBC' or 'the HSBC Group 'or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Board of Directors

Samir Assaf, Chairman
Amina Alrustamani, Deputy Chairman
Muna Al Gurg
Majed Najm
John Raine
Neslihan Erkazanci
John Bartlett
Christopher Spooner
Stephen Moss

Change in Directors

- Majed Najm appointed as Director on 14 October 2022.
- David Dew resigned as Director on 30 September 2022.

Principal activities

The group through its branch network and subsidiary undertakings provides a range of banking and related financial services in the Middle East, North Africa and Türkiye.

Attributable profit and dividends

The profit attributable to the shareholder of the parent company amounted to US$613m (2021: US$505m) as set out in the consolidated income statement on page 7.

During the year, a final dividend of US$305m (2021: US$277m) was declared on 21 September 2022 and a special dividend of US$750m was declared on 19 April 2022.

Going concern statement

The Board, having made appropriate enquiries, is satisfied that the group as a whole has adequate resources to continue operations for a period of at least twelve months from the date of this report, and it therefore continues to adopt the going concern basis in preparing the financial statements.

In making their going concern assessment, the Directors have considered a range of detailed information relating to present and potential conditions, including projections for profitability, cash flows, capital requirements, capital resources and the impact of stressed scenarios on group's operations.

Registered office

The bank is registered by continuation as a company limited by shares in the Dubai International Financial Centre ('DIFC') under the Companies Law, DIFC Law No. 2 of 2009, on 30 June 2016 with registered number 2199. Its head office and registered office is located at Level 4, Gate Precinct Building 2, Dubai International Financial Centre, Dubai, United Arab Emirates.

Auditor

PricewaterhouseCoopers Limited has expressed its willingness to continue in office and the Board recommends that it be reappointed. A resolution proposing the reappointment of PricewaterhouseCoopers Limited as auditor of the group and giving authority to the Directors to determine its remuneration will be submitted to the forthcoming Annual General Meeting.

On behalf of the Board

Tunde Darvai Taylor

Secretary

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of HSBC Bank Middle East Limited (the 'Company') and its subsidiaries (together the 'group') as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the United Kingdom ('UK').

What we have audited

The group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flow for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ('IESBA Code') and the ethical requirements of the Dubai Financial Services Authority (the 'DFSA'). We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Group scoping	The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of the components and other qualitative factors.
Materiality	Overall group materiality: US$36 million, which represents 5% of the profit before tax. Performance materiality: US$27 million.
Key audit matters	The key audit matter identified during the year is Expected credit losses – Impairment on loans and advances to customers.

The scope of our audit

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

How we tailored our group audit scope

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

The risks that the group faces are diverse, with the interdependencies between them being numerous and complex. In performing our risk assessment we engaged with a number of stakeholders to ensure we appropriately understood and considered these risks and their interrelationships. This includes stakeholders within the group and our own experts within PwC. This engagement covered external factors across the geopolitical, macroeconomic and regulatory and accounting landscape as well as the internal environment at the group, driven by strategy and transformation.

Through our risk assessment, we tailored our scoping approach as to which entities, locations and balances we needed to perform testing over to support our group opinion, taking into consideration the complex and disaggregated group structure, the accounting processes and controls as well as the industry in which they operate. The risks of material misstatement is reduced to an acceptable level by testing the most financially significant locations within the group and those that drive particular significant risks identified as part of our risk assessment. This ensures that sufficient coverage has been obtained for each financial statement line item (FSLI). We continually assessed risks and changed the scope of our audit where necessary.

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PricewaterhouseCoopers Limited is registered with the Dubai Financial Services Authority.

Our audit approach (continued)

A significant amount of the group's operational processes which are critical to financial reporting, such as those operated by the Global Risk function for expected credit losses, are undertaken in operations centres run by Digital Business Services ('DBS') across multiple locations. The audit work over the operations centre processes and controls was performed by PwC member firms in each of the global operations centre locations, with oversight from us. This work enabled us to evaluate the effectiveness of the controls over key processes that supported material balances, classes of transactions and disclosures within the group consolidated financial statements, and to consider the implications on our audit work. In aggregate, the audit work performed across the locations above provided us with the audit evidence required to form an opinion on the group consolidated financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	US$36 million.
How we determined it	5% of profit before tax.
Rationale for the materiality benchmark applied	We used profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$27 million.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above US$1.8 million as well as misstatements that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the consolidated financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses – Impairment on loans and advances to customers	
We focused on the Expected Credit Losses ('ECL') for loans and advances to customers due to the materiality of the loan balances and the associated allowances for ECL. In addition, the compliance with IFRS in this area involves management judgement and is subject to a high degree of estimation uncertainty. As disclosed in note 32, the allowance for ECL for loans and advances to customers as at 31 December 2022, is US$831 million. The largest loan portfolios and significant ECL allowances are in the UAE and Qatar. Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. These included assumptions made in: • the application and determination of forward looking economic scenarios and their probability weights; • estimating material management judgemental adjustments; and • the recoverability of credit impaired wholesale exposures.	We assessed the design and operating effectiveness of governance and controls over the estimation of ECLs. We observed management's review and challenge at governance forums where we observed assessment of ECL for Retail and Wholesale portfolios, including the assessment of model limitations and any resulting management judgemental adjustments. We also tested the controls over: • credit reviews that determine customer risk ratings for wholesale customers; • the input of critical data into source systems, and the flow and transformation of critical data from source systems to the impairment calculation engine and management judgemental adjustments; and • the calculation and approval of management judgemental adjustments to modelled outcomes We involved our modelling experts in assessing the appropriateness of modelling methodologies that were enhanced during the year. We also assessed the appropriateness of modelling methodologies that did not change during the year and whether post model adjustments were needed.

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses – Impairment on loans and advances to customers	
The level of estimation uncertainty and judgement has remained high during 2022 as a result of the uncertain macroeconomic and geopolitical environment, levels of inflation and a rising global interest rate environment. Economic conditions vary between territories and industries, leading to uncertainty around judgements made in determining the severity and probability weighting of macroeconomic variable forecasts across the different economic scenarios used in ECL models. The modelling methodologies used to estimate ECL are developed using historical experience. The impact of the prevailing economic conditions has resulted in certain limitations in the reliability of these methodologies to forecast the extent and timing of future customer defaults and therefore estimate ECL. In addition, modelling methodologies do not incorporate all factors that are relevant to estimating ECL, such as differentiating the impact on industry sectors of economic conditions. These limitations are addressed with management adjustments, the measurement of which is inherently judgemental and subject to a high level of estimation uncertainty. Management makes other assumptions which are less judgemental or for which variations have a less significant impact on ECL. These assumptions include: • the methodologies used in quantitative scorecards for determining customer risk ratings ('CRRs'); • model methodologies themselves; and • quantitative and qualitative criteria used to assess significant increases in credit risk.	In addition, we performed substantive testing over: • a sample of critical data used in the year end ECL calculation and management judgemental adjustments; • a sample of credit reviews to determine that Credit Risk Ratings were appropriately applied to wholesale exposures; • appropriateness and application of the quantitative and qualitative criteria used to assess significant increases in credit risk; • critical data, assumptions and discounted cash flows for a sample of credit impaired wholesale exposures. Further, we obtained reporting from our PwC member firm in the UK containing the results of certain centralised audit procedures in respect of ECL. We reviewed the reporting received in the context of the appropriateness of the nature, timing and extent of the work performed for the purpose of our audit. Their work included the following procedures: • the compliance of ECL methodologies and assumptions with the requirements of IFRS 9; • testing of model validation and monitoring controls; • observing the review and challenge governance forum's discussions around the determination of macroeconomic variables ('MEV') forecasts and their likelihood for different economic scenarios; testing of the calculation and approval of management judgemental adjustments to modelled outcomes; and • assessment of the significant assumptions made in determining the severity and probability weighting of MEV forecasts using the PwC UK member firm's economic experts. We assessed the disclosures included in the consolidated financial statements and assessed their compliance with the requirements of IFRS.

Other information

The directors are responsible for the other information. The other information comprises the Report of the Directors and Additional information on page 74 - 83 (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as issued by the IASB and their preparation in accordance with the applicable regulatory requirements of the DFSA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on legal and other regulatory requirements

As required by the applicable provisions of the DFSA Rulebook, we report that the consolidated financial statements have been properly prepared in accordance with the applicable requirements of the DFSA.

PricewaterhouseCoopers Limited

21 February 2023

Stuart Scoular

Audit Principal, Reference Number I013742

Dubai, United Arab Emirates

Consolidated income statement

for the year ended 31 December

	Notes	2022 US$000	2021 US$000
Net interest income		**903,217**	633,247
– interest income		**1,136,422**	727,942
– interest expense		**(233,205)**	(94,695)
Net fee income	*3*	**456,570**	444,727
– fee income		**574,213**	535,662
– fee expense		**(117,643)**	(90,935)
Net income from financial instruments held for trading or managed on a fair value basis		**360,496**	275,376
Changes in fair value of designated debt and related derivatives	*4*	**(10,170)**	(4,743)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**1,024**	(2,540)
Gains less losses from financial investments		**(4,748)**	11,293
Dividend income		**58**	58
Other operating income		**36,881**	50,241
Net operating income before change in expected credit losses and other credit impairment charges		**1,743,328**	1,407,659
Change in expected credit losses and other credit impairment charges	*5*	**16,637**	145,432
Net operating income		**1,759,965**	1,553,091
Employee compensation and benefits	*6*	**(538,997)**	(518,697)
General and administrative expenses		**(425,234)**	(378,659)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(30,674)**	(34,309)
Amortisation and impairment of intangible assets		**(41,205)**	(26,198)
Total operating expenses		**(1,036,110)**	(957,863)
Operating profit/(loss)	*5*	**723,855**	595,228
Share of profit/(loss) in associates	*17*	**(202)**	(208)
Profit/(loss) before tax		**723,653**	595,020
Tax expense	*8*	**(110,620)**	(89,535)
Profit/(loss) for the year		**613,033**	505,485
Attributable to:			
– shareholder of the parent company		**613,033**	505,485
Profit/(loss) for the year		**613,033**	505,485

The accompanying notes on pages 12 to 73 form an integral part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December

	2022	2021
	US$000	US$000
Profit/(loss) for the year	613,033	505,485
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	(92,611)	(24,821)
– fair value gains/(losses)	(102,107)	(37,609)
– fair value (gains)/losses transferred to the income statement on disposal	(4,748)	11,039
– expected credit losses recognised in income statement	(693)	(1,194)
– income taxes	14,937	2,943
Cash flow hedges	(15,417)	(21,062)
– fair value gains/(losses)	(18,289)	(23,756)
– fair value (gains)/losses reclassified to the income statement	—	(244)
– income taxes	2,872	2,938
Exchange differences	181	(1,430)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit liability	(4,885)	(31,430)
Fair value gains/(losses) on equity instruments designated at fair value through other comprehensive income	6,804	(11,459)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	9,832	5,613
Other comprehensive income/(expense) for the year, net of tax	(96,096)	(84,589)
Total comprehensive income/(expense) for the year	516,937	420,896
Attributable to:		
– shareholder of the parent company	516,937	420,896
Total comprehensive income/(expense) for the year	516,937	420,896

The accompanying notes on pages 12 to 73 form an integral part of these financial statements.

Consolidated statement of financial position

at 31 December

	Notes	2022 US$000	2021 US$000
Assets			
Cash and balances at central banks		**1,056,445**	848,471
Items in the course of collection from other banks		**75,248**	53,900
Trading assets	*11*	**1,786,013**	1,106,182
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**42,906**	25,315
Derivatives	*14*	**1,789,977**	1,070,156
Loans and advances to banks	*27*	**9,056,676**	7,807,302
Loans and advances to customers	*27*	**19,761,741**	18,623,781
Reverse repurchase agreements – non-trading	*27*	**5,293,684**	4,900,749
Financial investments	*15*	**7,752,241**	10,928,961
Prepayments, accrued income and other assets	*19*	**1,117,453**	1,051,496
Current tax assets		**1,114**	10
Interests in associates	*17*	**2,457**	2,659
Intangible assets	*20*	**200,859**	154,091
Deferred tax assets	*8*	**148,890**	198,649
Total assets		**48,085,704**	46,771,722
Liabilities and equity			
Liabilities			
Deposits by banks	*27*	**4,543,481**	4,575,102
Customer accounts	*21*	**29,975,304**	27,010,549
Repurchase agreements – non-trading		**933,719**	2,366,542
Items in the course of transmission to other banks		**258,689**	670,767
Trading liabilities	*22*	**368,048**	618,099
Financial liabilities designated at fair value	*23*	**1,420,580**	1,563,998
Derivatives	*14*	**1,747,196**	1,014,392
Debt securities in issue	*24*	**1,545,420**	1,874,830
Accruals, deferred income and other liabilities	*25*	**1,723,411**	1,630,882
Current tax liabilities		**70,626**	82,944
Provisions	*26*	**56,654**	100,046
Total liabilities		**42,643,128**	41,508,151
Equity			
Called up share capital	*30*	**931,055**	931,055
Share premium account	*30*	**61,346**	61,346
Other equity instrument	*30*	**967,500**	225,000
Other reserves		**(284,473)**	(181,815)
Retained earnings		**3,767,148**	4,227,985
Total shareholder's equity		**5,442,576**	5,263,571
Total equity		**5,442,576**	5,263,571
Total liabilities and equity		**48,085,704**	46,771,722

The accompanying notes on pages 12 to 73 form an integral part of these financial statements.

Stephen Moss
Chief Executive Officer / Director

Neslihan Erkazanci
Chief Financial Officer / Director

Consolidated statement of cash flows

for the year ended 31 December

	Notes	2022 US$000	2021 US$000
Cash flows from operating activities			
Profit/(loss) before tax		**723,653**	595,020
Adjustments for:			
Net (gain)/loss from investing activities		**4,899**	(11,158)
Share of (profit)/loss in associates		**202**	208
Other non-cash items included in profit before tax	31	**129,046**	(12,549)
Change in operating assets and operating liabilities	31	**(3,303,841)**	2,359,154
Elimination of exchange differences[1]		**27,047**	(1,954)
Tax paid		**(55,693)**	(65,599)
Net cash generated from/(used in) operating activities		**(2,474,687)**	2,863,122
Cash flows from investing activities			
Purchase of financial investments		**(9,857,306)**	(15,800,745)
Proceeds from the sale and maturity of financial investments		**12,856,049**	15,215,755
Net cash flows from the purchase and sale of property, plant and equipment		**(13,403)**	(2,796)
Net investment in intangible assets		**(87,581)**	(69,438)
Net cash generated from/(used) in investing activities		**2,897,759**	(657,224)
Cash flows from financing activities			
Issue/(redemption) of non-equity preference shares		**742,500**	(250,000)
Dividends paid		**(1,079,966)**	(279,193)
Net cash generated from/(used in) financing activities		**(337,466)**	(529,193)
Net increase in cash and cash equivalents		**85,606**	1,676,705
Cash and cash equivalents at 1 Jan[2]		**9,378,794**	7,702,023
Exchange differences in respect of cash and cash equivalents		**(32,005)**	66
Cash and cash equivalents at 31 Dec	31	**9,432,395**	9,378,794

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Cash and cash equivalents include mandatory deposits amounting to US$2,501m (2021: US$699m) at central banks which are not available for use by the group.*

The accompanying notes on pages 12 to 73 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December

				Other reserves						
	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Financial assets at FVOCI reserves	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves[1]	Total share-holder's equity	Non-controlling interests	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2022	**992,401**	**225,000**	**4,227,985**	**(21,189)**	**3,230**	**(148,535)**	**(15,321)**	**5,263,571**	**–**	**5,263,571**
Profit/(loss) for the year	**–**	**–**	**613,033**	**–**	**–**	**–**	**–**	**613,033**	**–**	**613,033**
Other comprehensive income/(expense) – net of tax	**–**	**–**	**6,530**	**(85,743)**	**(15,418)**	**(1,465)**	**–**	**(96,096)**	**–**	**(96,096)**
– debt instruments at fair value through other comprehensive income	**–**	**–**	**–**	**(92,611)**	**–**	**–**	**–**	**(92,611)**	**–**	**(92,611)**
– equity instruments designated at fair value through other comprehensive income	**–**	**–**	**–**	**6,804**	**–**	**–**	**–**	**6,804**	**–**	**6,804**
– cash flow hedges	**–**	**–**	**–**	**–**	**(15,417)**	**–**	**–**	**(15,417)**	**–**	**(15,417)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**–**	**–**	**9,832**	**–**	**–**	**–**	**–**	**9,832**	**–**	**9,832**
– remeasurement of defined benefit asset/liability	**–**	**–**	**(4,885)**	**–**	**–**	**–**	**–**	**(4,885)**	**–**	**(4,885)**
– exchange differences	**–**	**–**	**1,583**	**64**	**(1)**	**(1,465)**	**–**	**181**	**–**	**181**
Total comprehensive income for the year	**–**	**–**	**619,563**	**(85,743)**	**(15,418)**	**(1,465)**	**–**	**516,937**	**–**	**516,937**
New issuance	**–**	**750,000**	**–**	**–**	**–**	**–**	**–**	**750,000**	**–**	**750,000**
Reclassification of undated preference shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends	**–**	**–**	**(1,079,966)**	**–**	**–**	**–**	**–**	**(1,079,966)**	**–**	**(1,079,966)**
Other movements	**–**	**(7,500)**	**(434)**	**–**	**–**	**–**	**(32)**	**(7,966)**	**–**	**(7,966)**
At 31 Dec 2022	**992,401**	**967,500**	**3,767,148**	**(106,932)**	**(12,188)**	**(150,000)**	**(15,353)**	**5,442,576**	**–**	**5,442,576**
At 1 Jan 2021	992,401	–	4,022,892	15,110	24,292	(143,846)	(15,321)	4,895,528	4,418	4,899,946
Profit/(loss) for the year	–	–	505,485	–	–	–	–	505,485	–	505,485
Other comprehensive income/(expense) – net of tax	–	–	(22,547)	(36,291)	(21,062)	(4,689)	–	(84,589)	–	(84,589)
– debt instruments at fair value through other comprehensive income	–	–	–	(24,821)	–	–	–	(24,821)	–	(24,821)
– equity instruments designated at fair value through other comprehensive income	–	–	–	(11,459)	–	–	–	(11,459)	–	(11,459)
– cash flow hedges	–	–	–	–	(21,062)	–	–	(21,062)	–	(21,062)
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	5,613	–	–	–	–	5,613	–	5,613
– remeasurement of defined benefit asset/liability	–	–	(31,430)	–	–	–	–	(31,430)	–	(31,430)
– exchange differences	–	–	3,270	(11)	–	(4,689)	–	(1,430)	–	(1,430)
Total comprehensive loss for the year	–	–	482,938	(36,291)	(21,062)	(4,689)	–	420,896	–	420,896
Reclassification of undated preference shares	–	225,000	–	–	–	–	–	225,000	–	225,000
Dividends	–	–	(279,193)	–	–	–	–	(279,193)	–	(279,193)
Other movements	–	–	1,348	(8)	–	–	–	1,340	(4,418)	(3,078)
At 31 Dec 2021	992,401	225,000	4,227,985	(21,189)	3,230	(148,535)	(15,321)	5,263,571	–	5,263,571

1 *The merger reserve pertains to the acquisition of HBME Algeria in 2009.*

The accompanying notes on pages 12 to 73 form an integral part of these financial statements.

Notes on the financial statements

1 Legal status and principal activities

The group has its place of incorporation and head office in Dubai International Financial Centre ('DIFC'), in the United Arab Emirates, under a category 1 licence issued by the Dubai Financial Services Authority ('DFSA').

The group's registered office is Level 4, Gate Precinct Building No. 2, Dubai International Financial Centre, Dubai, United Arab Emirates.

The group through its branch network and subsidiary undertakings provides a range of banking and related financial services in the Middle East and North Africa.

The immediate parent company of the group is HSBC Middle East Holdings B.V. and the ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee. These financial statements are also compliant with IFRSs adopted by the United Kingdom ('UK') as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. At 31 December 2022, there were no unendorsed standards effective for the year ended 31 December 2022 affecting these consolidated financial statements. For the periods presented, there was no difference between IFRSs adopted by the UK and IFRSs issued by the IASB in terms of their application to the group.

Standards adopted during the year ended 31 December 2022

There were no new accounting standards or interpretations that had a significant effect on the group in 2022. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2022 that are applicable to the group. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2023 and 1 January 2024. The management expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group.

Major new IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance contracts' was issued in May 2017 with amendments in June 2020 and December 2021 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2023. The management has assessed the impact of IFRS 17 and expects that the standard will have no significant effect, when applied, on the consolidated financial statements of the group.

(c) Going concern

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

(d) Foreign currencies

The group's consolidated financial statements are presented in US dollars because the US dollar and currencies linked to it form the major currency bloc in which the group transacts and funds its business. The US dollar is also the group's functional currency because the US dollar and currencies linked to it are the most significant currencies relevant to the underlying transactions, events and conditions, as well as representing a significant proportion of its funds generated from financing activities.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not US dollars, are translated into the group's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into US dollars at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net assets, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate at the period end, are recognised in other comprehensive income. Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in the income statement of the separate financial statements and in other comprehensive income in consolidated accounts. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement as a reclassification adjustment.

(e) Critical accounting estimates and judgements

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

(f) Segmental analysis

The group's chief operating decision-maker is the Board. Operating segments are reported in a manner consistent with the internal reporting provided to the Board.

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

Products and services

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

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

2.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

The group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial setup.

Where an entity is governed by voting rights, the group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power over the relevant activities or holding the power as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The group has adopted the policy of 'predecessor accounting' for the transfer of business combinations under common control within the HSBC Group. Under IFRS where both HSBC Group entities adopt the same method for accounting for common control transactions the excess of the cost of the purchased group entity over the carrying value is recorded as a merger reserve on consolidation.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the group are consolidated from the date the group gains control and cease to be consolidated on the date the group loses control of the entities.

The group performs a re-assessment of consolidation whenever there is a change in the facts and circumstances of determining the control of all entities.

All intra-group transactions are eliminated on consolidation.

Interests in associates and joint arrangements

Joint arrangements are investments in which the group, together with one or more parties, has joint control. Depending on the group's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

The group recognises its share of the assets, liabilities and results in a joint operation. Investments in associates are recognised using the equity method. The attributable share of the results and reserves of associates are included in the consolidated financial statements of group based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date of financial statements available and 31 December. Investments in associates are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired.

(b) Income and expenses

Operating income

Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value (except for debt securities issued by the group and derivatives managed in conjunction with those debt securities) are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Non-interest income and expense

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

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

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

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

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

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

- 'Net income from financial instruments held for trading or managed on a fair value basis': This element is comprised of the net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Changes in fair value of designated debt and related derivatives': Interest on the external long-term debt and interest cash flows on related derivatives is presented in interest expense.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments which fail the solely payments of principal and interest test.

(c) Valuation of financial instruments

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

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the group measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

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

Non-trading reverse repurchase, repurchase and similar agreements

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

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

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

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

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income ('OCI')

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the group holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

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

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

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

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

Under the above criterion, the main classes of financial instruments designated by the group are:

- Long-term debt issues.

The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

(h) Derivatives

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

Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. The effective portion of gains and losses on the hedging instrument is recognised in other comprehensive income; other gains and losses are recognised immediately in the income statement. Gains and losses previously recognised in other comprehensive income are reclassified to the income statement on the disposal, or part disposal, of the foreign operation.

Derivatives that do not qualify for hedge accounting

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

(i) Impairment of amortised cost and FVOCI financial assets

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

Credit-impaired (stage 3)

The group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

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

Forbearance

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

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

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

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructurings. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition applying primary and secondary indicators. Mandatory and general offer loan modifications that are not borrower specific, for example market-wide customer relief programmes generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

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

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

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

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

Further information about the 23-grade scale used for CRR can be found on page 56.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

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

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

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

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

Purchased or originated credit impaired

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

Movement between stages

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

Measurement of ECL

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

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

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

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

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

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle)	• Point in time (based on current conditions, adjusted to consider estimates of future conditions that will impact PD)
EAD	• Cannot be lower than current balance	• Expected EAD based on estimate of credit conversion factors (CCF) and drawn down factors (DDF) including the expected impact of future macro-economic conditions. • Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of LGD including the expected impact of future economic conditions such as changes in value of collateral) • Regulatory floors may apply to mitigate risk of underestimating • Discounted using the reasonable approximation of the original effective interest rate. • Only direct costs are included (partially as per data availability)
Other		• Discounted back from point of default to balance sheet date

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

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is considered if it is likely that the recovery of the outstanding amount will include realization of collateral based on its estimated fair value of collateral at the time of expected realization, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Forward-looking economic inputs

The group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside, Downside scenarios and Additional Downside scenarios where Upside and Downside reflect deviations from the central view. The Upside, Downside and Additional Downside scenarios are constructed following a standard process supported by a scenario narrative reflecting the group's current top and emerging risks and in consultation with external and internal sources. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, and commercial property prices across all the countries in which the group operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the probability weights which are reviewed on a quarterly basis and changed in line with the current and expected economic environment. The economic forecast for Central and Outer scenarios is updated on quarterly basis.

The group recognises that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgements

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

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk • Determining the lifetime and point of initial recognition of overdrafts and credit cards • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	• The sections on pages 48 to 50, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(j) Employee compensation and benefits

Share-based payments

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

The vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

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

Post-employment benefit plans

The group contributes to the Government pension and social security schemes in the countries in which it operates, as per local regulations. Where the group's obligations under the plans are equivalent to a defined contribution plan the payments made are charged as an expense as they fall due. End of service benefits are calculated and paid in accordance with local law. The group's net obligation in respect of such end of service benefits is the amount of future benefits that employees have earned in return for their service in current and prior periods.

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

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

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

Critical accounting estimates and judgements

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

Judgements	Estimates
	• A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. • The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. • Key assumptions used in calculating the defined benefit pension obligation for the principal plan and the sensitivity of the calculation to different assumptions are described in Note 6.

(k) Tax

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

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

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

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

In assessing the probability and sufficiency of future taxable profit, we consider the availability of evidence to support the recognition of deferred tax assets. taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable.

Critical accounting estimates and judgements

Assessing the probability and sufficiency of future taxable profits, taking into account the future reversal of existing taxable temporary differences and tax planning strategies including corporate reorganisations.

(l) Debt securities in issue

Financial liabilities for debt securities issued are recognised when the group enters into contractual arrangements with counterparties and are initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial guarantees, is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life.

(m) Provisions, contingent liabilities and guarantees

Provisions

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

Critical accounting estimates and judgements

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

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

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Financial guarantee contracts

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

(n) Acceptances and endorsements

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

(o) Impairment of non-financial assets

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

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

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

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

Critical accounting estimates and judgements

The review of the non-financial assets for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the Critical accounting estimates and judgements in Note 2.1(e). In 2022, there was no impairment of non-financial assets based on comparing the carrying amount of the group's CGUs with their recoverable amount.

3 Net fee income

	2022	2021
	US$000	US$000
Credit facilities	33,181	38,815
Remittances	37,813	34,863
Cards	157,266	128,643
Global custody	49,038	40,910
Account services	44,245	33,590
Import/exports	57,204	56,400
Insurance agency	10,263	9,210
Corporate/project finance	12,989	17,485
Performance/tender bonds	56,375	59,240
Unit trusts	17,045	19,357
Others[1]	98,794	97,149
Total Fee Income	**574,213**	535,662
Fee Expense	(117,643)	(90,935)
Net Fee Income	**456,570**	444,727

1 *Others include related party transaction fee of US$55m (2021: US$60m). Refer Note 36 for further details on Related Party Transactions.*

4 Changes in fair value of designated debt and related derivatives

	2022	2021
	US$000	US$000
Net loss arising on changes in fair value	(10,170)	(4,743)
Year ended 31 Dec	**(10,170)**	(4,743)

5 Operating profit/(loss)

Operating profit is stated after the following items:

	2022 US$000	2021 US$000
Income		
Interest recognised on financial assets measured at amortised cost	**1,034,110**	665,440
– *of which: Interest recognised on impaired financial assets*	***5,791***	*4,730*
Interest recognised on financial assets measured at FVOCI	**100,763**	60,755
Fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**513,086**	368,996
Fees earned on trust and other fiduciary activities	**18,780**	15,998
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value	**(103,504)**	(46,624)
Fees payable on financial liabilities that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**(94,290)**	(67,573)
Restructuring provisions	**(15,705)**	(12,076)
Gains/(losses)		
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**(29)**	(135)
Change in expected credit loss charges and other credit impairment charges	**16,637**	145,432
– loans and advances to banks and customers	**(36,275)**	117,676
– loans commitments and guarantees	**50,367**	28,477
– other financial assets	**1,852**	(1,915)
– debt instruments measured at fair value though other comprehensive income	**693**	1,194

6 Employee compensation and benefits

	2022 US$000	2021 US$000
Wages and salaries	**507,512**	490,017
Social security costs	**9,071**	8,064
Post-employment benefits	**22,414**	20,616
Year ended 31 Dec	**538,997**	518,697

Share-based payments

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

	2022 US$000	2021 US$000
Restricted share awards	**10,642**	10,455
Year ended 31 Dec	**10,642**	10,455

Defined benefit pension plans

Net liability under defined benefit pension plans[1,2]

	2022 US$000	2021 US$000
At 1 Jan	**177,597**	145,354
Service cost	**19,668**	17,798
– current service cost	**20,526**	17,798
– Past service cost and gains from settlements	**(858)**	—
Net interest cost on the net defined benefit liability	**1,551**	1,823
Re-measurement effects recognised in other comprehensive income – actuarial gains/(losses)	**4,885**	31,430
– actuarial gains/(losses)	**4,885**	31,430
Exchange differences and other movements	**(62)**	792
Benefits paid	**(20,545)**	(19,600)
At 31 Dec	**183,094**	177,597

1 *There are no plan assets under defined benefit pension plans as at 31 Dec 2022 (31 Dec 2021: nil).*
2 *These are payable to employees immediately after resignation.*

Post-employment defined benefit plans' principal actuarial financial assumptions

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

Key actuarial assumptions for the principal plan

	Discount rate	Rate of pay increase	Combined rate of resignation and employment termination
	%	%	%
United Arab Emirates			
At 31 Dec 2022	**3.53**	**5**	**10.80**
At 31 Dec 2021	1.38	3	8.90

The group determines discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of current average yields of long-term government bonds.

The effect of changes in key assumptions on the principal plan

	United Arab Emirates	
	2022	2021
	US$000	US$000
Discount rate		
Change in scheme obligation at year end from a 25bps increase	**(895)**	(2,864)
Change in scheme obligation at year end from a 25bps decrease	**3,896**	2,477
Change in following year scheme cost from a 25bps increase	**39**	29
Change in following year scheme cost from a 25bps decrease	**(41)**	(225)
Rate of pay increase		
Change in scheme obligation at year end from a 25bps increase	**3,947**	4,553
Change in scheme obligation at year end from a 25bps decrease	**(958)**	(2,743)
Change in following year scheme cost from a 25bps increase	**387**	588
Change in following year scheme cost from a 25bps decrease	**(378)**	(519)

7 Auditors' remuneration

Audit fees

	2022	2021
	US$000	US$000
Audit fees payable to PwC	**1,660**	1,359
Other audit fees payable	**321**	64
Year ended 31 Dec	**1,981**	1,423

Audit and non-audit fees payable to PwC

	2022	2021
	US$000	US$000
Fees for HSBC Bank Middle East Limited statutory audit[1]	**1,660**	1,359
– relating to current year	**1,619**	1,359
– relating to prior year	**41**	–
Fees for other services provided to the group	**584**	1,109
– audit-related assurance services[2]	**429**	799
– other non-audit services	**155**	310
Year ended 31 Dec	**2,244**	2,468

1 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group.*
2 *Including services for assurance and other services that relate to statutory and regulatory filings, including interim reviews.*

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

8 Tax

Tax expense

	2022	2021
	US$000	US$000
Current tax	**40,563**	68,662
– for this year	**56,630**	70,252
– adjustments in respect of prior years	**(16,067)**	(1,590)
Deferred tax	**70,057**	20,873
– origination and reversal of temporary differences	**70,057**	20,873
Year ended 31 Dec	**110,620**	89,535

The group provides for taxation at the appropriate rates in the countries in which it operates.

Tax reconciliation

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

	2022		2021	
	US$000	%	US$000	%
Profit/(loss) before tax	**723,653**		595,020	
Tax expense				
Taxation at UAE corporate tax rate of 20% (2021: 20%)	**144,731**	**20.0**	119,004	20.0
Effect of differently taxed overseas profits	**(8,597)**	**(1.2)**	1,421	0.2
Adjustments in respect of prior period liabilities	**(2,435)**	**(0.3)**	(2,971)	(0.5)
Non-taxable income and gains	**(28,214)**	**(3.9)**	(21,840)	(3.7)
Permanent disallowables	**1,540**	**0.2**	(4,820)	(0.8)
Deferred tax	**—**	**—**	(7,438)	(1.3)
Local taxes and overseas withholding taxes	**3,595**	**0.5**	4,621	0.8
Other items	**—**	**—**	1,558	0.3
Overall tax expense	**110,620**	**15.3**	89,535	15.0

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

Movement of deferred tax assets and liabilities

	Loan impairment allowances	Other	Total
	US$000	US$000	US$000
Assets	**172,764**	**25,885**	**198,649**
Liabilities	**—**	**—**	**—**
At 1 Jan 2022	**172,764**	**25,885**	**198,649**
Income statement	**(54,812)**	**(15,245)**	**(70,057)**
Other comprehensive income	**—**	**19,091**	**19,091**
Foreign exchange and other adjustments	**—**	**1,207**	**1,207**
At 31 Dec 2022	**117,952**	**30,938**	**148,890**
Assets	**117,952**	**30,938**	**148,890**
Liabilities	**—**	**—**	**—**
Assets	190,087	29,577	219,664
Liabilities	—	—	—
At 1 Jan 2021	190,087	29,577	219,664
Income statement	(17,323)	(3,550)	(20,873)
Other comprehensive income	—	—	—
Foreign exchange and other adjustments	—	(142)	(142)
At 31 Dec 2021	172,764	25,885	198,649
Assets	172,764	25,885	198,649
Liabilities	—	—	—

Unrecognised deferred tax

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was Nil (2021: Nil).

Other information

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses ('Corporate Tax Law' or 'the Law') to enact a Federal corporate tax regime in the UAE. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods beginning on or after 1 June 2023. Generally, UAE businesses will be subject to a 9% corporate tax rate, while a rate of 0% will apply to taxable income not exceeding a threshold of AED 375,000 as prescribed by way of a Cabinet Decision issued in February 2023. However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, that are critical for entities to determine their tax status and the amount of tax due.

Therefore, the group has determined that the Law was not practically operational as at 31 December 2022, and therefore not been enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. The group shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine its tax status and the applicability of IAS 12 – Income Taxes. The group is currently in the process of assessing the possible impact on its consolidated financial statements, both from current and deferred tax perspectives.

9 Dividends

Dividends to shareholder of the parent company

	2022		2021	
	Per share	**Total**	Per share	Total
	US$	**US$000**	US$	US$000
Dividends paid on ordinary shares				
In respect of previous year:				
– Final dividend for 2021	**0.3276**	**305,000**	0.2975	277,000
In respect of current year:				
– Special dividend for 2022	**0.8055**	**750,000**	—	—
Total	**1.1331**	**1,055,000**	0.2975	277,000

10 Segment analysis

Profit/(loss) for the period

	2022					
	Wealth and Personal Banking	**Commercial Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre**	**Total**
Full year	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Net interest income	**365,390**	**263,824**	**249,791**	**70,434**	**(46,222)**	**903,217**
Net fee income	**120,143**	**136,293**	**120,101**	**81,062**	**(1,029)**	**456,570**
Net income from financial instruments held for trading or managed on a fair value basis	**46,638**	**44,670**	**(9,792)**	**247,581**	**31,399**	**360,496**
Other income	**5,212**	**5,518**	**5,201**	**(21,598)**	**28,712**	**23,045**
Net operating income before change in expected credit losses and other credit impairment charges	**537,383**	**450,305**	**365,301**	**377,479**	**12,860**	**1,743,328**
Change in expected credit losses and other credit impairment charges	**(14,902)**	**(723)**	**27,233**	**5,015**	**14**	**16,637**
Net operating income	**522,481**	**449,582**	**392,534**	**382,494**	**12,874**	**1,759,965**
Total operating expenses	**(374,636)**	**(243,520)**	**(185,742)**	**(127,751)**	**(104,461)**	**(1,036,110)**
Operating profit/(loss)	**147,845**	**206,062**	**206,792**	**254,743**	**(91,587)**	**723,855**
Share of profit/(loss) in associates	**—**	**—**	**—**	**—**	**(202)**	**(202)**
Profit/(loss) before tax	**147,845**	**206,062**	**206,792**	**254,743**	**(91,789)**	**723,653**
By geographical region						
U.A.E.	**125,102**	**107,160**	**143,495**	**170,314**	**(85,547)**	**460,524**
Qatar	**11,902**	**59,772**	**41,265**	**51,014**	**(1,922)**	**162,031**
Rest of Middle East	**10,841**	**39,130**	**22,032**	**33,415**	**(4,320)**	**101,098**
Profit/(loss) before tax	**147,845**	**206,062**	**206,792**	**254,743**	**(91,789)**	**723,653**

	2021					
Net interest income	235,720	171,884	181,490	46,122	(1,969)	633,247
Net fee income	110,114	134,974	127,338	72,400	(99)	444,727
Net income from financial instruments held for trading or managed on a fair value basis	44,259	36,396	1,847	193,704	(830)	275,376
Other income	13,145	16,595	2,182	1,330	21,057	54,309
Net operating income before change in expected credit losses and other credit impairment charges	403,238	359,849	312,857	313,556	18,159	1,407,659
Change in expected credit losses and other credit impairment charges	39,174	(8,145)	114,297	106	—	145,432
Net operating income	442,412	351,704	427,154	313,662	18,159	1,553,091
Total operating expenses	(345,366)	(244,626)	(172,818)	(111,815)	(83,238)	(957,863)
Operating profit/(loss)	97,046	107,078	254,336	201,847	(65,079)	595,228
Share of profit in associates	—	—	—	—	(208)	(208)
Profit/(loss) before tax	97,046	107,078	254,336	201,847	(65,287)	595,020
By geographical region						
U.A.E.	92,585	5,346	192,787	147,367	(53,002)	385,083
Qatar	(4,652)	53,039	38,139	35,391	(1,512)	120,405
Rest of Middle East	9,113	48,693	23,410	19,089	(10,773)	89,532
Profit/(loss) before tax	97,046	107,078	254,336	201,847	(65,287)	595,020

Balance sheet information

	2022					
	Wealth and Personal Banking	Commercial Banking	Global Banking	Markets and Securities Services	Corporate Centre	Total
	US$000	US$000	US$000	US$000	US$000	US$000
Loans and advances to customers (net)	**3,812,070**	**6,307,010**	**9,641,441**	**1,220**	**—**	**19,761,741**
Interest in associates	**—**	**—**	**—**	—	**2,457**	**2,457**
Total assets	**10,915,549**	**9,652,972**	**16,083,721**	**9,367,214**	**2,066,248**	**48,085,704**
Customer accounts	**14,332,720**	**6,243,766**	**8,426,959**	**971,856**	**3**	**29,975,304**
Total liabilities	**15,432,542**	**7,654,007**	**11,238,672**	**6,222,278**	**2,095,629**	**42,643,128**
	2021					
Loans and advances to customers (net)	3,448,764	6,072,356	9,102,651	10	—	18,623,781
Interest in associates	—	—	—	—	2,659	2,659
Total assets	12,040,353	10,158,530	16,690,646	6,149,985	1,732,208	46,771,722
Customer accounts	13,169,265	5,675,239	7,437,546	728,363	136	27,010,549
Total liabilities	14,742,502	7,215,927	11,619,599	4,775,241	3,154,882	41,508,151

Other financial information

Information by country

	2022		2021	
	External net operating income[1]	Non-current assets[2]	External net operating income[1]	Non-current assets[2]
	US$000	US$000	US$000	US$000
U.A.E.	**1,349,768**	**416,851**	1,107,139	378,238
Qatar	**234,193**	**17,630**	176,835	13,237
Rest of Middle East	**159,367**	**25,324**	123,685	26,859
Total	**1,743,328**	**459,805**	1,407,659	418,334

1 *External net operating income is attributed to countries on the basis of the location of the branch responsible for reporting the results or advancing the funds.*
2 *Non-current assets consist of property, plant and equipment, other intangible assets and certain other assets expected to be recovered more than 12 months after the reporting period.*

Performance ratios

	2022					
	Wealth and Personal Banking	Commercial Banking	Global Banking	Markets and Securities Services	Corporate Centre	Total
	%	%	%	%	%	%
Year ended 31 December 2022						
Share of the group's profit before tax	**20.4**	**28.5**	**28.6**	**35.2**	**(12.7)**	**100.0**
Cost efficiency ratio[1]	**69.7**	**54.1**	**50.8**	**33.8**	**812.3**	**59.4**
	2021					
Year ended 31 December 2021						
Share of the group's profit before tax	16.3	18.0	42.7	33.9	(10.9)	100.0
Cost efficiency ratio	85.6	68.0	55.2	35.7	458.4	68.0

1 *Cost efficiency ratio is calculated by dividing total operating expenses by net operating income before change in expected credit losses and other credit impairment charges.*

11 Trading assets

	2022	2021
	US$000	US$000
Trading assets:		
– not subject to repledge or resale by counterparties	**1,786,013**	1,106,182
At 31 Dec	**1,786,013**	1,106,182
Debt securities	**130,981**	231,379
Treasury and other eligible bills	**47,563**	158,645
Trading securities	**178,544**	390,024
Trading reverse repurchase agreements	**1,594,970**	701,322
Loans and advances to customers	**12,499**	14,836
At 31 Dec	**1,786,013**	1,106,182

12 Fair values of financial instruments carried at fair value

Control framework

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

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

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

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

Financial liabilities measured at fair value

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

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

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

Fair value hierarchy

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

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

Financial instruments carried at fair value and bases of valuation

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	125,529	1,364,508	295,976	1,786,013	353,181	405,101	347,900	1,106,182
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	19,993	–	22,913	42,906	–	–	25,315	25,315
Derivatives	–	1,788,745	1,232	1,789,977	–	1,068,997	1,159	1,070,156
Financial investments	3,844,499	802,970	33,011	4,680,480	8,264,716	2,638,020	26,225	10,928,961
Liabilities								
Trading liabilities	61,602	306,446	–	368,048	179,907	438,192	–	618,099
Financial liabilities designated at fair value	–	1,420,580	–	1,420,580	–	1,563,998	–	1,563,998
Derivatives	–	1,738,930	8,266	1,747,196	–	1,011,158	3,234	1,014,392

The balance as at 31 December 2022 under financial assets mandatorily measured at fair value through profit or loss is US$22.9m (2021: US$25.3m) and financial assets designated at fair value through profit or loss is $20m (2021: nil).

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

During 2022, there was a transfer of $23m (2021 nil) from Level 1 to Level 2 Financial Investments. The transfers from Level 2 to Level 3 during the year are shown in 'Movement in Level 3 financial instruments' on page 30.

Fair value adjustments

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

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

Bid-offer

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

Uncertainty

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

Credit and debit valuation adjustment

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

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

The group calculates a separate credit valuation adjustment and debit valuation adjustment for each group legal entity, and within each entity for each counterparty to which the entity has exposure.

The group calculates the credit valuation adjustment by applying the probability of default of the counterparty conditional on the non-default of the group to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the group calculates the debit valuation adjustment by applying the PD of the group, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the group and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

Funding fair value adjustment

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

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

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

Fair value valuation bases

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

	Assets					Liabilities	
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Derivatives	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Private equity including strategic investments	**33,011**	**—**	**22,913**	**—**	**55,924**	**—**	**—**
Other derivatives	**—**	**—**	**—**	**1,232**	**1,232**	**8,266**	**8,266**
Other portfolios	**—**	**295,976**	**—**	**—**	**295,976**	**—**	**—**
At 31 Dec 2022	**33,011**	**295,976**	**22,913**	**1,232**	**353,132**	**8,266**	**8,266**
Private equity including strategic investments	26,225	—	25,315	—	51,540	—	—
Other derivatives	—	—	—	1,159	1,159	3,234	3,234
Other portfolios	—	347,900	—	—	347,900	—	—
At 31 Dec 2021	26,225	347,900	25,315	1,159	400,599	3,234	3,234

Private equity including strategic investments

The investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; or the price at which similar companies have changed ownership.

Derivatives

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

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

Movement in Level 3 financial instruments

	Assets				Liabilities
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Derivatives
	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2022	**26,225**	**347,900**	**25,315**	**1,159**	**3,234**
Total gain/(losses) recognised in profit or loss	**—**	**(3,105)**	**(281)**	**683**	**2,115**
– net income/expense from financial instruments held for trading or managed on a fair value basis	**—**	**(3,105)**	**—**	**683**	**2,115**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(281)**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income	**6,786**	**—**	**—**	**—**	**—**
– financial investments: fair value gains/(losses)	**6,786**	**—**	**—**	**—**	**—**
Purchases	**—**	**28,949**	**—**	**1,239**	**4,395**
Settlements	**—**	**(77,768)**	**(2,121)**	**(1,466)**	**—**
Transfers out	**—**	**—**	**—**	**(383)**	**(1,478)**
Transfers in	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2022	**33,011**	**295,976**	**22,913**	**1,232**	**8,266**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2022	**—**	**(3,105)**	**(281)**	**683**	**2,115**
– net income/expense from financial instruments held for trading or managed on a fair value basis	**—**	**(3,105)**	**—**	**683**	**2,115**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(281)**	**—**	**—**
At 1 Jan 2021	37,719	195,055	38,813	2,578	2,720
Total gain/(losses) recognised in profit or loss	—	5,045	(3,244)	(548)	(780)
– net income from financial instruments held for trading or managed on a fair value basis	—	5,045	—	(548)	(780)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(3,244)	—	—
Total gains/(losses) recognised in other comprehensive income	(11,494)	—	—	—	—
– financial investments: fair value gains/(losses)	(11,494)	—	—	—	—
Purchases	—	211,189	—	—	2,165
Settlements	—	(78,225)	(10,254)	(871)	(871)
Transfers in	—	14,836	—	—	—
At 31 Dec 2021	26,225	347,900	25,315	1,159	3,234
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2021	—	5,045	(3,244)	(548)	(780)
– net income/expense from financial instruments held for trading or managed on a fair value basis	—	5,045	—	(548)	(780)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(3,244)	—	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 Dec 2022				At 31 Dec 2021			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Derivatives and trading assets[1]	21	(1,759)	–	–	–	(27)	–	–
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	1,926	(1,926)	–	–	1,983	(1,983)	–	–
Financial investments	–	–	3,257	(1,628)	–	–	2,598	(1,311)
Total	**1,947**	**(3,685)**	**3,257**	**(1,628)**	1,983	(2,010)	2,598	(1,311)

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

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

	At 31 Dec 2022				At 31 Dec 2021			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Private equity including strategic investments	1,926	(1,926)	3,257	(1,628)	1,983	(1,983)	2,598	(1,311)
Other derivatives	–	(23)	–	–	–	(27)	–	–
Other portfolios	21	(1,736)	–	–	–	–	–	–
Total	**1,947**	**(3,685)**	**3,257**	**(1,628)**	1,983	(2,010)	2,598	(1,311)

13 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	US$000	US$000	US$000	US$000	US$000
At 31 Dec 2022					
Assets					
Loans and advances to banks	9,056,676	–	9,058,671	–	9,058,671
Loans and advances to customers	19,761,741	–	–	19,436,175	19,436,175
Reverse repurchase agreements – non-trading	5,293,684	–	5,309,319	–	5,309,319
Financial Investments	3,071,761	2,116,090	908,946		3,025,036
Liabilities					
Deposits by banks	4,543,481	–	4,570,819	–	4,570,819
Customer accounts	29,975,304	–	29,893,122	–	29,893,122
Repurchase agreements – non-trading	933,719	–	933,682	–	933,682
Debt securities in issue	1,545,420	–	1,534,842	–	1,534,842
At 31 Dec 2021					
Assets					
Loans and advances to banks	7,807,302	–	7,916,583	–	7,916,583
Loans and advances to customers	18,623,781	–	–	18,599,743	18,599,743
Reverse repurchase agreements – non-trading	4,900,749	–	4,898,648	–	4,898,648
Financial Investments	–	–	–	–	–
Liabilities					
Deposits by banks	4,575,102	–	4,662,479	–	4,662,479
Customer accounts	27,010,549	–	27,014,401	–	27,014,401
Repurchase agreements – non-trading	2,366,542	–	2,365,875	–	2,365,875
Debt securities in issue	1,874,830	–	1,879,945	–	1,879,945

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

Valuation

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

Loans and advances to banks and customers

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

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

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

Financial investments

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

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

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

Repurchase and reverse repurchase agreements – non-trading

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

14 Derivatives

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

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Foreign exchange	**121,847,344**	**900,093**	**812,016**	**1,899**	**813,915**	**886,480**	**—**	**886,480**
Interest rate	**37,706,149**	**3,196,577**	**871,406**	**104,422**	**975,828**	**848,112**	**12,372**	**860,484**
Credit	**33,499**	**—**	**234**	**—**	**234**	**232**	**—**	**232**
Commodity and other	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2022	**159,586,992**	**4,096,670**	**1,683,656**	**106,321**	**1,789,977**	**1,734,824**	**12,372**	**1,747,196**
Foreign exchange	124,359,130	812,989	505,335	2,268	507,603	483,673	91	483,764
Interest rate	45,535,214	2,001,163	544,297	17,596	561,893	514,905	14,268	529,173
Credit	133,480	—	284	—	284	1,079	—	1,079
Commodity and other	127,388	—	376	—	376	376	—	376
At 31 Dec 2021	170,155,212	2,814,152	1,050,292	19,864	1,070,156	1,000,033	14,359	1,014,392

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

Use of derivatives

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

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

Trading derivatives

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

Hedge accounting derivatives

Hedged risk components

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

Fair value hedges

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

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]
Hedged Risk	US$000	US$000	US$000		US$000
Interest rate	**2,555,895**	**103,074**	**376**	**Derivatives**	**96,960**
At 31 Dec 2022	**2,555,895**	**103,074**	**376**		**96,960**
Interest rate	1,624,296	9,441	14,268	Derivatives	46,643
At 31 Dec 2021	1,624,296	9,441	14,268		46,643

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument.*

Hedged item by hedged risk

	Hedged Item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	US$000	US$000	US$000	US$000		US$000	US$000	
Interest rate	**2,349,754**	**—**	**95,526**	**—**	**Financial investments**	**(93,869)**		
Interest rate	**311,934**	**—**	**18,043**	**—**	**Loans and advances to customers**	**(4,381)**	**811**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**—**	**61,870**	**—**	**6,478**	**Debt securities in issue**	**515**		
Interest rate	**—**	**43,204**	**—**	**270**	**Deposits by banks**	**1,586**		
At 31 Dec 2022	**2,661,688**	**105,074**	**113,569**	**6,748**		**(96,149)**	**811**	
Interest rate	1,484,524	—	1,264	—	Financial investments	(47,431)		
Interest rate	349,496	—	8,218	—	Loans and advances to customers	(2,005)	87	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	—	40,897	—	515	Debt securities in issue	1,430		
Interest rate	—	43,204	—	1,316	Deposits by banks	1,450		
At 31 Dec 2021	1,834,020	84,101	9,482	1,831		(46,556)	87	

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

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

Cash flow hedges

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

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

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

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	US$000	US$000	US$000		US$000	US$000	US$000	
Foreign currency	**900,093**	**1,899**	**–**	**Derivatives**	**677**	**310**	**367**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**640,682**	**1,348**	**11,996**	**Derivatives**	**(18,966)**	**(18,966)**	**–**	
At 31 Dec 2022	**1,540,775**	**3,247**	**11,996**		**(18,289)**	**(18,656)**	**367**	
Foreign currency	812,989	2,268	91	Derivatives	933	933	–	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	376,867	8,155	–	Derivatives	(25,066)	(24,932)	(134)	
At 31 Dec 2021	1,189,856	10,423	91		(24,133)	(23,999)	(134)	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

Interest rate benchmark reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

The group has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting.

The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'. The notional value of the derivatives impacted by the Ibor reform, including those designated in hedge accounting relationships, is disclosed on page 45 in the section 'Financial instruments impacted by the Ibor reform'.

There is no significant judgement applied for these benchmarks to determine whether and when the transition uncertainty has been resolved.

The most significant Ibor benchmark in which the group continues to have hedging instruments is US dollar Libor. It is expected that the transition out of US dollar Libor hedging derivatives will be largely completed by 30 June 2023. These transitions do not necessitate new approaches compared with any of the mechanisms used so far for transition and it will not be necessary to change the transition risk management strategy.

For some of the Ibors included under the 'Other' header, in the table below, judgement is applied to establish whether a transition is required, since there are Ibor benchmarks which are subject to computation methodology improvements and insertion of fallback provisions without full clarity being provided by their administrators on whether these Ibor benchmarks will be demised.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the group that is expected to be directly affected by market-wide Ibors reform and in scope of Phase 1 amendments. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging Instrument impacted by Ibor Reform

	Hedging instrument				
	Impacted by Ibor Reform				
	USD	Other	Total	NOT Impacted by Ibor Reform	Notional Amount[1]
	US$000	US$000	US$000	US$000	US$000
Fair Value Hedges	**389,021**	**–**	**389,021**	**2,166,874**	**2,555,895**
Cash Flow Hedges	**–**	**640,682**	**640,682**	**900,093**	**1,540,775**
At 31 Dec 2022	**389,021**	**640,682**	**1,029,703**	**3,066,967**	**4,096,670**
Fair Value Hedges	1,259,727	–	1,259,727	364,569	1,624,296
Cash Flow Hedges	99,985	276,882	376,867	812,989	1,189,856
At 31 Dec 2021	1,359,712	276,882	1,636,594	1,177,558	2,814,152

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

15 Financial investments

Carrying amount of financial investments

	2022	2021
	US$000	US$000
Financial investments measured at fair value through other comprehensive income	**4,680,480**	10,928,961
– Treasury and other eligible bills	**1,474,876**	7,014,648
– Debt securities	**3,172,593**	3,888,088
– Equity securities[1]	**33,011**	26,225
Debt instruments measured at amortised cost	**3,071,761**	–
– Treasury and other eligible bills	**1,448,807**	–
– Debt securities	**1,622,954**	–
At 31 Dec	**7,752,241**	10,928,961

1 *These mainly include investment in HSBC Türkiye and dividends recognised on these investments during the year were nil (2021: nil).*

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

Assets charged as security for liabilities

The fair value of assets pledged as collateral but that do not qualify for derecognition is US$1,377m (2021: US$1,349m). These transactions are conducted under terms that are usual and customary to repurchase agreements.

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is US$7,689m (2021: US$6,277m). The fair value of any such collateral sold or repledged is US$627m (2021: US$1,451m). The group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

17 Interests in associates and joint arrangement

Associates of the group

	At 31 Dec 2022			
	Country of incorporation	Principal activity	The group's interest in equity capital	Issued equity capital
MENA Infrastructure Fund (GP) Limited	**Dubai, UAE**	**Private Equity fund management**	**33.33%**	**US$0.99m fully paid**

The above associate is not considered significant to the group and is unlisted.

Movements in interests in associates

	2022	2021
	US$000	US$000
At 1 Jan	**2,659**	2,867
Disposals	**–**	–
Share of results	**(202)**	(208)
At 31 Dec	**2,457**	2,659

Joint arrangement of the group

	At 31 Dec 2022			
	Country of incorporation	Principal activity	The group's interest in equity capital	Issued equity capital
HSBC Middle East Leasing Partnership – (Joint operation)	**Dubai, UAE**	**Leasing**	**15.00%**	**US$371m fully paid**

The results of the joint arrangement have been included on proportionate basis.

During the year, there has been a reduction in issued equity capital from US$621 million to US$371 million.

18 Investments in subsidiaries

Subsidiary undertakings of the group

	At 31 Dec 2022	
	Country of incorporation or registration	**Group's interest in equity capital**
HSBC Middle East Asset Company LLC	**Dubai, UAE**	**100%**
HSBC Middle East Securities LLC	**Dubai, UAE**	**100%**
HSBC Insurance Services (Lebanon) S.A.L. (in liquidation)	**Lebanon**	**100%**
HSBC Bank Middle East Representative Office Morocco S.A.R.L. (in liquidation)	**Morocco**	**100%**

All the above entities prepare their financial statements up to 31 December and the countries of operation are the same as the countries of incorporation.

The subsidiary undertakings are unlisted, directly owned and are included in the consolidated financial statements of the group. HSBC Financial Services (Middle East) Limited, 100% owned subsidiary of the group was liquidated during the year.

19 Prepayments, accrued income and other assets

	2022	2021
	US$000	US$000
Prepayments and accrued income	**307,736**	175,432
Endorsements and acceptances	**367,290**	467,006
Other accounts	**185,938**	147,474
Property, plant and equipment[1]	**256,489**	261,584
At 31 Dec	**1,117,453**	1,051,496

1 *As at 31 December 2022, net book value of HSBC Tower was US$223m (2021: US$229m) and depreciation charged during the year was US$9m (2021: US$9m).*

20 Intangible assets

Included within intangible assets is internally generated software with a net carrying value of US$201m (2021: US$154m).

During the year, capitalisation of internally generated software was US$88m (2021: US$75m), amortisation was US$37m (2021: US$22m).

21 Customer Accounts

	2022	2021
	US$000	US$000
Current account	**21,912,009**	20,232,527
Saving account	**3,930,213**	3,922,173
Fixed deposits	**4,123,642**	2,849,137
Others	**9,440**	6,712
At 31 Dec	**29,975,304**	27,010,549

22 Trading liabilities

	2022	2021
	US$000	US$000
Deposits by banks	**1,756**	–
Trading repurchase agreements	**285,691**	437,883
Net short positions in securities	**80,601**	180,216
At 31 Dec	**368,048**	618,099

23 Financial liabilities designated at fair value

	2022	2021
	US$000	US$000
Deposits by banks and customer accounts	**629,409**	489,368
Debt securities in issue (Note 24)	**791,171**	1,074,630
Total	**1,420,580**	1,563,998

At 31 December 2022, the accumulated change in fair value attributable to changes in credit risk was a gain of US$1m (2021: US$8.8m loss). As at 31 December 2022, the difference between the carrying amount and the amount contractually required to be paid at maturity was US$17m (2021: US$24m).

24 Debt securities in issue

	2022		2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	US$000	**US$000**	US$000	US$000
Medium-term notes	**1,861,591**	**1,860,075**	2,474,460	2,470,920
Non-equity preference shares	**475,000**	**465,938**	475,000	483,655
Total debt securities in issue	**2,336,591**	**2,326,013**	2,949,460	2,954,575
Included within:				
– financial liabilities designated at fair value (Note 23)	**(791,171)**	**(791,171)**	(1,074,630)	(1,074,630)
At 31 Dec	**1,545,420**	**1,534,842**	1,874,830	1,879,945

Movement in medium-term notes at amortised cost

	2022	2021
	US$000	US$000
Balance as at 1 Jan	**1,399,830**	1,050,594
New issues	**425,750**	1,170,765
Repayments	**(755,160)**	(821,529)
At 31 Dec	**1,070,420**	1,399,830

Non-equity preference share capital

Authorised

The authorised non-equity preference share capital of the bank at 31 December 2022 and 31 December 2021 was 1,125,000 dated preference shares of US$1.00 each and 225,000 undated preference shares of US$1.00 each.

Issued

Dated preference shares

Issue number	Issue date	Dated preference shares	Preference dividends	Redeemable at the option of the bank on any date after
		Number	%	Date
11	16 December 2014	250,000	USD SOFR CMP -5BD + 2.70	16 December 2024
12	30 December 2014	225,000	USD SOFR CMP -5BD + 2.70	30 December 2024

1 *The dated preference shares have been issued at a nominal value of US$1 each with a premium of US$999 per share.*
2 *Preference dividends are payable quarterly on the issue price of each dated share.*
3 *Redemption of the dated preference shares, other than at the option of the bank, will be subject to the approval of the ordinary shareholders of the bank. The earliest redemption date is as disclosed in the table above and if not approved by the shareholders will next fall for review at 10 yearly intervals thereafter. However, the shares may be redeemed at the option of the Bank without the approval of the ordinary shareholders of the bank. On redemption, the holders of the shares shall be entitled to receive an amount equal to any accrued but unpaid dividends plus the issue price of each share.*
4 *In the event of a winding up, the preference shareholders would receive, in priority to the ordinary shareholders of the bank, repayment of US$1,000 per share, plus an amount equal to any accrued but unpaid dividends. With the exception of the above, the preference shares do not carry any right to participate in the surplus of assets on a winding up.*

25 Accruals, deferred income and other liabilities

	2022	2021
	US$000	US$000
Accruals and deferred income	**284,927**	239,514
Share-based payments liability to HSBC Holdings plc	**14,531**	10,829
Endorsements and acceptances	**367,766**	469,610
Employee benefit liabilities (Note 6)	**183,094**	177,597
Margin deposits	**342,292**	369,789
Transitory accounts	**187,889**	18,093
Other liabilities	**342,912**	345,450
At 31 Dec	**1,723,411**	1,630,882

26 Provisions

	Restructuring costs	Contractual commitments	Legal proceedings and regulatory matters	Other provisions	Total
	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2022	**4,100**	**84,596**	**3,610**	**7,740**	**100,046**
Additions	**15,705**	**—**	**250**	**2,732**	**18,687**
Amounts utilised	**(6,981)**	**—**	**(26)**	**(516)**	**(7,523)**
Unused amounts reversed	**(3,525)**	**—**	**(69)**	**(523)**	**(4,117)**
Net Change in expected credit loss provision	**—**	**(50,367)**	**—**	**—**	**(50,367)**
Exchange and other movements	**1**	**—**	**(491)**	**418**	**(72)**
At 31 Dec 2022	**9,300**	**34,229**	**3,274**	**9,851**	**56,654**
At 1 Jan 2021	7,699	113,073	3,054	5,757	129,583
Additions	12,076	—	721	2,550	15,347
Amounts utilised	(11,447)	—	(101)	(234)	(11,782)
Unused amounts reversed	(4,229)	—	(594)	(328)	(5,151)
Net Change in expected credit loss provision	—	(28,477)	—	—	(28,477)
Exchange and other movements	1	—	530	(5)	526
At 31 Dec 2021	4,100	84,596	3,610	7,740	100,046

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

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

- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period, which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due after 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due after 5 years' time bucket.
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets and liabilities

	At 31 Dec 2022				
	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	US$000	US$000	US$000	US$000	US$000
Financial assets					
Trading assets	**975,395**	**618,286**	**192,332**	**—**	**1,786,013**
Derivatives	**1,685,528**	**934**	**84,199**	**19,316**	**1,789,977**
Loans and advances to banks	**7,211,457**	**366,295**	**1,438,291**	**40,633**	**9,056,676**
Loans and advances to customers	**6,661,888**	**2,361,871**	**6,683,231**	**4,054,751**	**19,761,741**
Reverse repurchase agreements – non-trading	**3,829,524**	**280,185**	**1,183,975**	**—**	**5,293,684**
Financial investments	**2,506,731**	**1,147,678**	**3,892,255**	**205,577**	**7,752,241**
Other financial assets	**779,298**	**38,526**	**696**	**—**	**818,520**
Total	**23,649,821**	**4,813,775**	**13,474,979**	**4,320,277**	**46,258,852**
Non-Financial assets	**—**	**—**	**—**	**604,834**	**604,834**
Financial liabilities					
Deposits by banks	**1,216,149**	**802,352**	**2,524,980**	**—**	**4,543,481**
Customer accounts	**28,305,723**	**1,614,786**	**54,795**	**—**	**29,975,304**
Repurchase agreements – non-trading	**622,494**	**—**	**311,225**	**—**	**933,719**
Trading liabilities	**82,357**	**—**	**285,691**	**—**	**368,048**
Financial liabilities designated at fair value	**583,412**	**96,234**	**740,934**	**—**	**1,420,580**
Derivatives	**1,734,831**	**368**	**11,997**	**—**	**1,747,196**
Debt securities in issue	**—**	**104,185**	**966,235**	**475,000**	**1,545,420**
Other financial liabilities	**1,393,780**	**44,364**	**19,684**	**3,658**	**1,461,486**
Total	**33,938,746**	**2,662,289**	**4,915,541**	**478,658**	**41,995,234**
Non-Financial liabilities	**—**	**—**	**—**	**346,952**	**346,952**
Loan and other credit-related commitments	**19,196,734**	**—**	**—**	**—**	**19,196,734**
Financial guarantees and similar contracts	**17,271,717**	**—**	**—**	**—**	**17,271,717**

Maturity analysis of assets and liabilities (continued)

	At 31 Dec 2021				
	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	US$000	US$000	US$000	US$000	US$000
Financial assets					
Trading assets	715,258	274,933	115,991	–	1,106,182
Derivatives	1,052,318	4,032	13,045	761	1,070,156
Loans and advances to banks	6,410,469	485,537	911,296	–	7,807,302
Loans and advances to customers	5,205,160	2,533,957	7,811,762	3,072,902	18,623,781
Reverse repurchase agreements – non-trading	3,689,218	258,492	953,039	–	4,900,749
Financial investments	4,795,285	3,258,375	2,609,708	265,593	10,928,961
Other financial assets	656,607	87,277	2,066	–	745,950
Total	22,524,315	6,902,603	12,416,907	3,339,256	45,183,081
Non-Financial assets	–	–	–	660,955	660,955
Financial liabilities					
Deposits by banks	1,452,404	635,865	2,486,833	–	4,575,102
Customer accounts	26,156,313	731,714	122,522	–	27,010,549
Repurchase agreements – non-trading	2,029,269	113,248	224,025	–	2,366,542
Trading liabilities	352,652	–	265,447	–	618,099
Financial liabilities designated at fair value	72,970	439,646	1,051,382	–	1,563,998
Derivatives	1,003,142	3,726	7,524		1,014,392
Debt securities in issue	346,643	40,897	1,012,290	475,000	1,874,830
Other financial liabilities	1,285,951	91,789	17,899	5,540	1,401,179
Total	32,699,344	2,056,885	5,187,922	480,540	40,424,691
Non-Financial liabilities	–	–	–	412,693	412,693
Loan and other credit-related commitments	18,330,346	–	–	–	18,330,346
Financial guarantees and similar contracts	17,248,568	–	–	–	17,248,568

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

	On demand	**Due within 3 months**	**Due between 3 and 12 months**	**Due between 1 and 5 years**	**Due after 5 years**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
Deposits by banks	**1,216,989**	**2,095**	**809,197**	**2,535,424**	**–**
Customer accounts	**27,392,009**	**919,539**	**1,621,781**	**55,209**	**–**
Repurchase agreements – non-trading	**598,898**	**23,658**	**–**	**311,225**	**–**
Trading liabilities	**368,048**	**–**	**–**	**–**	**–**
Financial liabilities designated at fair value	**307,789**	**278,726**	**101,867**	**749,269**	**–**
Derivatives	**1,734,824**	**–**	**368**	**11,997**	**–**
Debt securities in issue	**1,109**	**8,019**	**130,905**	**1,034,620**	**512,309**
Other financial liabilities	**1,272,904**	**315,055**	**44,967**	**21,078**	**3,903**
Total	**32,892,570**	**1,547,092**	**2,709,085**	**4,718,822**	**516,212**
Loan and other credit-related commitments	**19,196,734**	**–**	**–**	**–**	**–**
Financial guarantees and similar contracts	**17,271,717**	**–**	**–**	**–**	**–**
At 31 Dec 2022	**69,361,021**	**1,547,092**	**2,709,085**	**4,718,822**	**516,212**
Deposits by banks	1,302,873	150,889	638,867	2,492,428	–
Customer accounts	25,247,868	909,753	732,984	122,817	–
Repurchase agreements – non-trading	1,917,024	112,245	113,248	224,025	–
Trading liabilities	618,099	–	–	–	–
Financial liabilities designated at fair value	2,887	73,662	448,448	1,062,857	–
Derivatives	1,001,313	1,829	3,726	7,523	–
Debt securities in issue	956	352,526	58,893	1,072,707	488,788
Other financial liabilities	1,566,460	344,153	92,267	18,935	5,882
Total	31,657,480	1,945,057	2,088,433	5,001,292	494,670
Loan and other credit-related commitments	18,330,346	–	–	–	–
Financial guarantees and similar contracts	17,248,568	–	–	–	–
At 31 Dec 2021	67,236,394	1,945,057	2,088,433	5,001,292	494,670

The above table shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives). For this reason, balances in the above table do not agree directly with those in our consolidated balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

Further discussion of the group's liquidity and funding management can be found in Note 32 'Risk management'.

28 Offsetting of financial assets and financial liabilities

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

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

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

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

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

	Amounts subject to enforceable netting arrangements							
				Amounts not set off in the balance sheet				
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments and Non-cash collateral[2]	Cash collateral	Net amount	Amount not subject to enforceable netting arrange-ments	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Financial assets								
Derivatives (Note 14)	**1,309,845**	**—**	**1,309,845**	**(1,275,256)**	**(34,589)**	**—**	**480,132**	**1,789,977**
Reverse repos, stock borrowing and similar agreements classified as:	**4,672,145**	**—**	**4,672,145**	**(4,672,145)**	**—**	**—**	**621,539**	**5,293,684**
– non-trading assets	**4,672,145**	**—**	**4,672,145**	**(4,672,145)**	**—**	**—**	**621,539**	**5,293,684**
Loans and advances to customers excluding reverse repos at amortised cost[1]	**265,693**	**—**	**265,693**	**—**	**(155,215)**	**110,478**	**—**	**265,693**
At 31 Dec 2022	**6,247,683**	**—**	**6,247,683**	**(5,947,401)**	**(189,804)**	**110,478**	**1,101,671**	**7,349,354**
Derivatives (Note 14)	818,678	—	818,678	(818,678)	—	—	251,478	1,070,156
Reverse repos, stock borrowing and similar agreements classified as:	4,279,788	—	4,279,788	(4,279,788)	—	—	620,961	4,900,749
– non-trading assets	4,279,788	—	4,279,788	(4,279,788)	—	—	620,961	4,900,749
Loans and advances to customers excluding reverse repos at amortised cost[1]	320,897	—	320,897	—	(198,783)	122,114	—	320,897
At 31 Dec 2021	5,419,363	—	5,419,363	(5,098,466)	(198,783)	122,114	872,439	6,291,802
Financial liabilities								
Derivatives (Note 14)	**1,309,845**	**—**	**1,309,845**	**(1,275,256)**	**(34,589)**	**—**	**437,351**	**1,747,196**
Repurchase agreements - non trading	**933,719**	**—**	**933,719**	**(933,719)**	**—**	**—**	**—**	**933,719**
At 31 Dec 2022	**2,243,564**	**—**	**2,243,564**	**(2,208,975)**	**(34,589)**	**—**	**437,351**	**2,680,915**
Derivatives (Note 14)	815,672	—	815,672	(815,672)	—	—	198,720	1,014,392
Repurchase agreements - non trading	2,366,542	—	2,366,542	(2,366,542)	—	—	—	2,366,542
At 31 Dec 2021	3,182,214	—	3,182,214	(3,182,214)	—	—		3,182,214

1 *At 31 December 2022, the total amount of 'Loans and advances to customers' was US$19,762m (2021: US$18,623m), of which US$266m (2021: US$321m) was subject to offsetting.*

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

29 Foreign exchange exposure

Structural foreign exchange exposures

The group's structural foreign currency exposure is represented by the net asset value of its foreign currency equity and subordinated debt investments in subsidiaries, branches and associates with non-US dollar functional currencies. Gains or losses on structural foreign exchange exposures are recognised in other comprehensive income.

The main operating currencies of the group are UAE dirham and other Gulf currencies that are linked to the US dollar.

The group's management of structural foreign currency exposures is discussed in Note 32 'Risk management'.

Net structural foreign currency exposures

Currency of structural exposure

	2022			2021		
	Structural foreign exchange exposures	**Economic hedges-structural FX hedge[1]**	**Net structural foreign exchange exposures**	Structural foreign exchange exposures	Economic hedges-structural FX hedge[1]	Net structural foreign exchange exposures
	US$000	**US$000**	**US$000**	US$000	US$000	US$000
Algerian dinar	**161,474**	**—**	**161,474**	159,883	—	159,883
Bahraini dinar	**176,054**	**(35,613)**	**140,441**	156,820	(35,611)	121,209
Kuwaiti dinar	**279,183**	**—**	**279,183**	273,481	—	273,481
Lebanese pound	**—**	**—**	**—**	177	—	177
Moroccan dirham	**153**	**—**	**153**	172	—	172
Qatari riyal	**784,662**	**(277,000)**	**507,662**	724,789	(332,000)	392,789
UAE dirham	**4,533,513**	**(2,285,153)**	**2,248,360**	4,155,116	(1,984,936)	2,170,180
Total	**5,935,039**	**(2,597,766)**	**3,337,273**	5,470,438	(2,352,547)	3,117,891

1 *Economic Hedges – Structural FX hedge represent hedges that do not qualify as net investment hedges for accounting purposes.*

30 Called up share capital and share premium

Authorised

The authorised ordinary share capital of the bank at 31 December 2022 was 1,500,000,000 (2021: 1,500,000,000) ordinary shares[1] of US$1.00 each.

Called up share capital and share premium

Issued and fully paid

	2022		2021	
	Number	**US$000**	Number	US$000
At 31 Dec[1]	**931,055,001**	**931,055**	931,055,001	931,055

Share premium

	2022	2021
	US$000	US$000
At 31 Dec	**61,346**	61,346

Total called up share capital and share premium

	2022	2021
	US$000	US$000
At 31 Dec	**992,401**	992,401

1 *All ordinary shares in issue confer identical rights, including in respect of capital, dividends and voting.*

Other equity instruments

Undated preference shares

	2022	2021
	US$000	US$000
Undated preference shares	**225,000**	225,000
Perpetual Additional Tier 1 preference shares	**750,000**	—
Less: Issuance cost on Additional Tier 1 preference shares	**(7,500)**	—
At 31 Dec	**967,500**	225,000

Issued

Undated preference shares

	Nominal value US$000	Dividend basis %	Mandatory redemption (maturity date)
Undated preference shares	**50,000**	**USD SOFR CMP -5BD + 0.35**	**undated**
Undated preference shares	**25,000**	**USD SOFR CMP -5BD + 0.70**	**undated**
Undated preference shares	**150,000**	**USD SOFR CMP -5BD + 0.65**	**undated**
At 31 Dec 2022	**225,000**		

1 *The undated preference shares have been issued at a nominal value of US$1 each with a premium of US$999 per share.*
2 *Preference dividends are payable annually on the issue price of each undated share at the option of the issuer.*
3 *The undated preference shares are redeemable, however there is no mandatory redemption date. On redemption, the holders of the shares shall be entitled to receive an amount equal to any accrued but unpaid dividends plus the issue price of each share.*
4 *Each share carries one vote at meetings of the shareholders of the bank.*
5 *In the event of a winding up, the preference shareholders would receive, in priority to the ordinary shareholders of the bank, repayment of US$1,000 per share, plus an amount equal to any accrued but unpaid dividends. With the exception of the above, the preference shares do not carry any right to participate in the surplus of assets on a winding up.*

Perpetual Additional Tier 1 preference shares

	Nominal value US$000	Dividend basis %	Mandatory redemption (maturity date)
Perpetual Additional Tier 1 preference shares	**750,000**	**6.25**	**undated**
At 31 Dec 2022	**750,000**		

1 *The Perpetual Additional Tier 1 Preference shares have been issued at par value of US$1 per share.*
2 *Preference dividends are payable semi-annually at the option of the issuer.*
3 *The Perpetual Additional Tier 1 preference shares are redeemable, however there is no mandatory redemption date. These are perpetual instruments with first call date on 19 April 2027.*
4 *In the event of a winding up, the preference shareholders would receive, in priority to the ordinary shareholders of the bank, repayment of US$1 per share, plus an amount equal to any accrued but unpaid dividends. With the exception of the above, the preference shares do not carry any right to participate in the surplus of assets on a winding up.*

31 Notes on the statement of cash flows

Non-cash items included in profit before tax

	2022 US$000	2021 US$000
Depreciation, amortisation and impairment	**71,879**	60,507
Share-based payment expense	**10,642**	10,455
Change in expected credit losses and other credit impairment charges	**6,778**	(117,668)
Provisions including pensions	**35,789**	29,815
Other non-cash items included in profit before tax	**3,958**	4,342
At 31 Dec	**129,046**	(12,549)

Change in operating assets and liabilities

	2022 US$000	2021 US$000
Change in other assets	**(125,344)**	124,239
Change in net trading securities and net derivatives	**(935,188)**	(45,702)
Change in loans and advances to banks and customers	**(2,099,179)**	1,255,545
Change in reverse repurchase agreements – non-trading	**(1,216,501)**	(1,201,534)
Change in financial assets designated at fair value	**(17,591)**	13,498
Change in other liabilities	**52,647**	(24,495)
Change in deposits by banks and customer accounts	**2,933,134**	1,282,482
Change in debt securities in issue	**(329,410)**	349,236
Change in financial liabilities designated at fair value	**(133,586)**	(1,254,182)
Change in repurchase agreements – non-trading	**(1,432,823)**	1,860,067
At 31 Dec	**(3,303,841)**	2,359,154

Cash and cash equivalents

	2022 US$000	2021 US$000
Cash and balances at central banks	**1,056,445**	848,471
Items in the course of collection from other banks	**75,248**	53,900
Loans and advances to banks of one month or less	**6,557,418**	6,203,905
Reverse repurchase agreement with banks of one month or less	**1,578,361**	2,401,927
Net settlement accounts and cash collateral	**45,473**	68,585
Treasury bills, other bills and certificates of deposit less than three months	**378,139**	472,773
Less: items in the course of transmission to other banks	**(258,689)**	(670,767)
Total cash and cash equivalents	**9,432,395**	9,378,794

32 Risk management

Our approach to risk

Our risk management

All the group's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks which the group is exposed to are retail and wholesale credit risk (including cross-border country risk), market risk (predominantly foreign exchange and interest rate risks), liquidity and funding risk and strategic risk (including reputational risk). The group is also exposed to non-financial risk in various forms (including Resilience risk, Financial Crime and Fraud Risk, People Risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting and Tax risks and Model Risks). There is a growing focus on the management of Climate Risk and its embedment in to how we do our business, conduct our operation and deal with all our stakeholders.

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

Our risk management framework

The following table and descriptions summarise key aspects of the risk management framework, including governance, structure, our risk management tools and our culture, which together help align employee behaviour with our risk appetite.

Key components of our risk management framework

<table>
<tr><th colspan="3">HSBC Values and risk culture</th></tr>
<tr><td rowspan="2">Risk governance</td><td>Non-executive risk governance</td><td>The Board approves the risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Risk Committee and the Audit Committee.</td></tr>
<tr><td>Executive risk governance</td><td>Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk across the organisation.</td></tr>
<tr><td>Roles and responsibilities</td><td>Three Lines Of Defence ('LOD') model</td><td>Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk function helps ensure the necessary balance in risk/return decisions.</td></tr>
<tr><td rowspan="3">Processes and tools</td><td>Risk appetite</td><td rowspan="3">There are processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.</td></tr>
<tr><td>Enterprise-wide risk management tools</td></tr>
<tr><td>Active risk management: identification/assessment, monitoring, management and reporting</td></tr>
<tr><td rowspan="3">Internal controls</td><td>Policies and procedures</td><td>Policies and procedures define the minimum requirements for the controls required to manage our risks.</td></tr>
<tr><td>Control activities</td><td>Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.</td></tr>
<tr><td>Systems and infrastructure</td><td>There are systems and/or processes that support the identification, capture and exchange of information to support risk management activities.</td></tr>
</table>

Risk culture

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

Risk governance and ownership

An established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk across the group and global business level. The risk management framework applies to all the types of risk we face, ensures we define, identify and assess and have sufficient controls in place to manage, aggregate, report and govern the risks consistently across the group. This will help to grow our business safely within our appetite, deliver fair outcomes for customers and maintain the orderly and transparent operation of financial markets.

The Board has ultimate accountability for risk and approves the risk appetite, sets the 'tone from the top' regarding the strong risk culture expected across our organisation and delegates responsibility for risk oversight to the Risk Committee and the Audit Committee. The Audit and Risk Committees are responsible for advising the Board on material risk matters and provide non-executive oversight of risks. Under authority delegated by the Board Risk Committee, the separately convened Risk Management Meeting ('RMM') formulates high-level risk management policy and oversees the implementation of risk appetite and controls. The RMM together with the 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 our risk management framework.

The Chief Risk Officer ('CRO') chairs the RMM of the Executive Committee. The CRO, who reports to the Chief Executive Officer ('CEO') and functionally to the Europe and MENAT CRO in the HSBC Group, heads the Risk Function, which is independent from the global businesses and forms part of the second line of defence. The RMM is a formal risk governance committee where members of the Executive Committee make recommendations and provide advice to the CRO to help them carry out their role and responsibilities in relation to enterprise risk oversight over all risks, including compliance. The membership of the Executive Committee ensures that the committee oversees risk management matters across the three lines of defence.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in identifying and managing risk within the scope of their roles. These roles are defined using the three lines of defence model. The first line of defence has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. The second line of defence review and challenge the first line of defence activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The third line of defence is internal audit.

We define financial risk as the risk of a financial loss as a result of business activities. We actively take these risks to maximise shareholder value and profits. Non-financial risk is the risk of loss as a result of failed internal processes, people and systems, or from external events. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our CRO. Sound non-financial risk management is central to achieving good outcome from our customers. We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on its governance and risk appetite, and provides a single view of the non-financial risk that matters the most and the associated controls.

It incorporates a risk management system designed to enable the active management of non-financial risks. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the Operational and Resilience Risk function.

Risk appetite

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

a. an alignment with our strategy, purpose, values, customer needs and HSBC Group Risk Appetite;

b. trends highlighted in other risk reports;

c. communication with risk stewards on the developing risk landscape;

d. strength of our capital, liquidity and balance sheet;

e. compliance with applicable laws and regulations;

f. effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;

g. functionality, capacity and resilience of available systems to manage risk, and

h. the level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our Risk Appetite Statements ('RAS'). Setting out our risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

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

Our Responsibilities

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

Three lines of defence

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

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

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

Risk and Compliance Function

Our Risk and Compliance function is responsible for the Group's risk management framework. This responsibility includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risk. Risk and Compliance is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the Risk and Compliance function is independent from the global businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

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

We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, and provides a single view of the non-financial risks that matter the most and the associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the Operational and Resilience Risk function.

Stress testing and recovery planning

We operate a wide-ranging stress testing programme that is a key part of our risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on the Group, and provides confidence to regulators on the Group's financial stability.

Our stress testing programme assesses our capital and liquidity strength through rigorous examination of our resilience to external shocks. As well as understanding regulatory-driven stress tests. We conduct our own internal stress tests in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Internal stress tests

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

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

In addition to HSBC Group wide stress testing scenarios, the group conducts regular macroeconomic and event-driven scenario and analyses specific to its region. We also participate, as required, in the regulatory stress testing programmes of the jurisdictions in which the group operate.

We also conduct reverse stress tests each year to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

Recovery and resolution plan

Recovery and resolution plans form part of the integral framework safeguarding the group's financial stability. The recovery plan together with stress testing help us understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate risk mitigating action. The group is also committed to further developing its recovery and resolution capabilities in line with applicable local regulatory resolvability assessment framework requirements.

The group conducted its first recovery plan fire drill in 2022 to test escalation procedures and governance arrangements, examine and identify any impediments in implementing multiple management actions and to explore management's decision-making process when considering the implications of a severe stress scenario. Management demonstrated the ability to execute the escalation process and collectively agree a recovery strategy in accordance with the group's recovery plan framework.

The group continues to enhance its recovery and resolution plan in line with the requirements of the DFSA.

Key developments in 2022

We actively managed the risks related to the Russia-Ukraine war and broader macroeconomic and geopolitical uncertainties, as well as the continued risks resulting from the Covid-19 pandemic and other key risks described in this section. In addition, we enhanced our risk management in the following areas:

- We continued to develop our approach to emerging risk identification and management.
- We enhanced our enterprise risk reporting processes to place a greater focus on our emerging risks, including capturing the materiality, oversight and individual monitoring of these risks.
- We have further strengthened our third-party risk policy and processes to improve control and oversight of our material third parties that are key to maintaining our operational resilience, and to meet new and evolving regulatory requirements.
- We made progress with our comprehensive regulatory reporting programme to strengthen our global processes, improve consistency, and enhance controls.
- We enhanced, and continued to embed, the governance and oversight around model adjustments and related processes for IFRS 9 models and Sarbanes-Oxley controls.
- Our climate risk programme continues to shape our approach to climate risk across four key pillars: governance and risk appetite; risk management; stress testing; and disclosures.
- We continued to improve the effectiveness of our financial crime controls. We are refreshing our financial crime policies ensuring they remain up-to-date and address changing and emerging risks. We continue to monitor regulatory changes.

Top and emerging risks

We use a 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. We proactively assess the internal and external risk environment and our top and emerging risks as necessary.

Our current top and emerging risks are described on page 74.

Areas of special interest

Covid-19

Impact of Covid-19 within the group's markets has considerably reduced following successful vaccine rollouts and considering reduced appetite for broad lockdowns. Globally, countries continue to differ to a degree in their approach although China, being one of the major Oil consumer, has recently reversed restrictions on activity and mobility, presenting potential upside to the global economic outlook as economic activity, travel and tourism recovers. This could drive global growth, though this may also lead to renewed inflationary pressures as demand for commodities and other goods rises. In the short-term, however, a significant escalation in infections poses a downside risk to activity, consumption and growth.

Ibor transition

Following the UK's Financial Conduct Authority ('FCA') announcement in July 2017 that it would no longer continue to persuade, or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021, we have been actively working to transition legacy contracts from Ibor's to products linked to near risk-free replacement rates ('RFRs') or alternative reference rates. For the cessation of the publication of US dollar Libor from 30 June 2023, we have implemented the majority of required processes, technology and RFR product capabilities in preparation for upcoming market events and continue to transition outstanding legacy contracts through the first half of 2023.

We have completed the transition of the majority of our uncommitted lending facilities and continue to make steady progress with the transition of the outstanding legacy committed lending facilities. Transition of our derivatives portfolio is progressing well with most clients reliant on industry mechanisms to transition to RFRs. For the limited number of bilateral derivatives trades where an alternative transition path is required client engagement is continuing. For certain products and contracts, including bonds and syndicated loans, we remain reliant on the continued support of agents and third parties, but we continue to progress those contracts requiring transition.

We will continue to monitor contracts that may be potentially more challenging to transition and need to rely upon legislative solutions. Additionally, following the FCA's consultation in November 2022 proposing that US dollar Libor is to be published using a 'synthetic' methodology for a defined period, we will continue to work with our clients to support them through the transition of their products if transition is not completed by 30 June 2023.

For US dollar Libor and other demising Ibors, we continue to be exposed to, and actively monitor, risks including:

- regulatory compliance and conduct risks, as the transition of legacy contracts to RFRs or alternative rates, or sales of products referencing RFRs, may not deliver fair client outcomes;
- resilience and operational risks, as changes to manual and automated processes, made in support of new RFR methodologies, and the transition of large volumes of Ibor contracts may lead to operational issues;
- legal risk, as issues arising from the use of legislative solutions and from legacy contracts that we are unable to transition may result in unintended or unfavorable outcomes for clients and market participants, which could potentially increase the risk of disputes;
- model risk, as there is a risk that changes to our models, to replace Ibor-related data, adversely affect the accuracy of model outputs; and
- market risk, because as a result of differences in Libor and RFR interest rates, we are exposed to basis risk resulting from the asymmetric adoption of rates across assets, liabilities and products.

We will monitor these risks through the remainder of the transition of legacy contracts, with a focus on fair client outcomes. The level of risk is diminishing in line with our process implementation and continued transition of contracts. Throughout 2023, we continue to be committed to engaging with our clients and investors to complete an orderly transition of the remaining contracts.

Financial instruments impacted by Ibor reform

Amendments to IFRS issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to an amortised cost financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

	Financial instruments yet to transition to alternative benchmarks, by main benchmark	
	USD Libor	**Others**
At 31 Dec 2022	**US$000**	**US$000**
Non-derivative financial assets		
Loans and advances to customers	**4,191,824**	**–**
Other financial assets	**1,080,690**	**–**
Total non-derivative financial assets	**5,272,514**	**–**
Non-derivative financial liabilities		
Debt securities in issue	**1,426,091**	**–**
Other financial liabilities	**745,000**	**–**
Total non-derivative financial liabilities	**2,171,091**	**–**
Derivative notional contract amount		
Interest rate	**20,046,678**	**640,682**
Others	**1,309,639**	**–**
Total derivative notional contract amount	**21,356,317**	**640,682**

At 31 Dec 2021	Financial instruments yet to transition to alternative benchmarks, by main benchmark	
	USD Libor	Others
	US$000	US$000
Non-derivative financial assets		
Loans and advances to customers	5,146,550	—
Other financial assets	946,790	—
Total non-derivative financial assets	6,093,340	—
Non-derivative financial liabilities		
Debt securities in issue	1,443,991	—
Other financial liabilities	1,980,000	—
Total non-derivative financial liabilities	3,423,991	—
Derivative notional contract amount		
Interest rate	22,311,157	276,882
Others	—	—
Total derivative notional contract amount	22,311,157	276,882

The amounts in the above table relate to the group's main operating entities and provide an indication of the extent of the group's exposure to the Ibor benchmarks which are due to be replaced. Amounts are in respect of the financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 30 June 2023, the date by which Libor is expected to cease;
- are recognised on the group's consolidated balance sheet.

Credit risk

Credit risk management

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

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

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

The principal objectives of our credit risk management are:

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

IFRS 9 'Financial Instruments' Process

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

Concentration of exposure

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

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

Further details on gross loans and advances to customers by industry sector are set out on page 61.

Credit quality of financial instruments

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

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

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

Impairment assessment

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

Write-off of loans and advances

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

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due, the standard period being the end of the month in which the account becomes 180 days contractually delinquent. Write-off periods may be extended, generally to no more than 360 days past due. However, in exceptional circumstances, they may be extended further, in countries where local regulation or legislation constrain earlier write-off, or where the realisation of collateral for secured real estate lending extends to this time.

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

Summary of credit risk

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

The IFRS 9 allowance for ECL has decreased from US$1,034m at 31 December 2021 to US$846m at 31 December 2022.

The IFRS 9 allowance for ECL at 31 December 2022 comprises US$839m (2021: US$1,005m) in respect of assets held at amortised cost, US$1m (2021: US$2m) on debt instruments measured at fair value through other comprehensive income and US$6m (2021: US$27m) in respect of loan commitments and financial guarantees.

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

	31 Dec 2022		31 Dec 2021	
	Gross carrying/nominal amount	**Allowance for ECL**	Gross carrying/nominal amount	Allowance for ECL
	US$000	**US$000**	US$000	US$000
Loans and advances to customers at amortised cost	**20,593,074**	**(831,333)**	19,618,941	(995,160)
Loans and advances to banks at amortised cost	**9,059,836**	**(3,160)**	7,810,570	(3,268)
Other financial assets measured at amortised costs	**10,251,369**	**(4,432)**	6,494,761	(6,284)
– cash and balances at central banks	**1,056,661**	**(216)**	848,873	(402)
– items in the course of collection from other banks	**75,248**	**—**	53,900	—
– reverse repurchase agreements – non-trading	**5,293,684**	**—**	4,900,749	—
– financial investments	**3,072,059**	**(298)**	—	—
– prepayments, accrued income and other assets	**753,717**	**(3,918)**	691,239	(5,882)
Total gross carrying amount on-balance sheet	**39,904,279**	**(838,925)**	33,924,272	(1,004,712)
Loans and other credit related commitments	**8,100,601**	**(5,174)**	7,555,710	(14,167)
Financial guarantees	**2,456,746**	**(598)**	2,342,657	(13,102)
Total nominal amount off-balance sheet	**10,557,347**	**(5,772)**	9,898,367	(27,269)

	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	US$000	**US$000**	US$000	US$000
Debt instruments measured at fair value through other comprehensive income (FVOCI)	**4,647,469**	**(865)**	10,904,286	(1,550)

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

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

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

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2022

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Loans and advances to customers at amortised cost	**17,771,371**	**1,785,743**	**1,032,283**	**3,677**	**20,593,074**	**(34,836)**	**(56,877)**	**(736,765)**	**(2,855)**	**(831,333)**
Loans and advances to banks at amortised cost	**8,884,904**	**174,932**	**—**	**—**	**9,059,836**	**(1,775)**	**(1,385)**	**—**	**—**	**(3,160)**
Other financial assets measured at amortised cost	**10,147,114**	**100,439**	**3,816**	**—**	**10,251,369**	**(710)**	**(147)**	**(3,575)**	**—**	**(4,432)**
Loan and other credit-related commitments	**7,950,803**	**145,740**	**4,058**	**—**	**8,100,601**	**(3,451)**	**(1,611)**	**(112)**	**—**	**(5,174)**
Financial guarantees	**2,352,524**	**93,322**	**10,900**	**—**	**2,456,746**	**(239)**	**(357)**	**(2)**	**—**	**(598)**
At 31 Dec 2022	**47,106,716**	**2,300,176**	**1,051,057**	**3,677**	**50,461,626**	**(41,011)**	**(60,377)**	**(740,454)**	**(2,855)**	**(844,697)**

	ECL coverage %				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	%	**%**	**%**	**%**	**%**
Loans and advances to customers at amortised cost	**0.2**	**3.2**	**71.4**	**77.6**	**4.0**
Loans and advances to banks at amortised cost	**—**	**0.8**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**—**	**0.1**	**93.7**	**—**	**—**
Loan and other credit-related commitments	**—**	**1.1**	**2.8**	**—**	**0.1**
Financial guarantees	**—**	**0.4**	**—**	**—**	**—**
At 31 Dec 2022	**0.1**	**2.6**	**70.4**	**77.6**	**1.7**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2021 (continued)

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Loans and advances to customers at amortised cost	15,238,549	3,218,945	1,155,649	5,798	19,618,941	(78,892)	(90,052)	(824,717)	(1,499)	(995,160)
Loans and advances to banks at amortised cost	7,785,538	25,032	—	—	7,810,570	(3,093)	(175)	—	—	(3,268)
Other financial assets measured at amortised cost	6,382,940	105,646	6,175	—	6,494,761	(976)	(495)	(4,813)	—	(6,284)
Loan and other credit related commitments	7,201,601	353,028	1,081	—	7,555,710	(7,036)	(7,044)	(87)	—	(14,167)
Financial guarantees	2,116,443	217,558	8,656	—	2,342,657	(3,069)	(10,031)	(2)	—	(13,102)
At 31 Dec 2021	38,725,071	3,920,209	1,171,561	5,798	43,822,639	(93,066)	(107,797)	(829,619)	(1,499)	(1,031,981)

	ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total
	%	%	%	%	%
Loans and advances to customers at amortised cost	0.5	2.8	71.4	25.9	5.1
Loans and advances to banks at amortised cost	—	0.7	—	—	—
Other financial assets measured at amortised cost	—	0.5	77.9	—	0.1
Loan and other credit related commitments	0.1	2.0	8.0	—	0.2
Financial guarantees	0.1	4.6	—	—	0.6
At 31 Dec 2021	0.2	2.7	70.8	25.9	2.4

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Methodology for Developing Forward Looking Economic Scenarios

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

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

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

In light of ongoing risks, management deviated from this probability weighting in the fourth quarter of 2022. As at 31 December 2022, the UAE central scenario has been assigned a weighting of 70%, the downside scenario 20% and 5% each for the upside and the downside 2 scenarios, according to the decision of the group's senior management.

Description of Consensus Economic Scenarios

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

Central scenario (2023Q1–2027Q4)

	UAE
Probability (%)	**70**
GDP growth rate (%)	
2023: Annual average growth rate	**3.7**
2024: Annual average growth rate	**3.7**
2025: Annual average growth rate	**3.1**
5-year average	**3.2**
Oil price (US$/barrel)	
2023: Average oil price	**83.1**
2024: Average oil price	**79.0**
2025: Average oil price	**76.0**
2026: Average oil price	**73.8**
5-year average	**77.2**
House price growth (%)	
2023: Annual average growth rate	**5.9**
2024: Annual average growth rate	**5.2**
2025: Annual average growth rate	**4.5**
5-year average	**4.4**
Inflation rate (%)	
2023: Annual average rate	**3.2**
2024: Annual average rate	**2.2**
2025: Annual average rate	**2.1**
5-year average	**2.3**

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

Outer scenarios (less likely)

	UAE		
	Consensus upside scenario	Consensus downside scenario	Downside 2 scenario
Probability (%)	**5**	**20**	**5**
GDP growth rate (%)	**7.8 (4Q23)**	**1 (4Q23)**	**(3.7) (2Q24)**
Oil price (US$)	**85.7 (1Q23)**	**67.3 (4Q26)**	**54.1 (3Q24)**
House price growth (%)	**9.5 (2Q24)**	**(3) (4Q23)**	**(3.6) (4Q23)**
Inflation rate (%)	**1.5 (3Q24)**	**Min 1.8 (2Q23) Max 4.5 (1Q23)**	**Min 1.7 (4Q24) Max 4.8 (1Q23)**

How economic scenarios are reflected in the wholesale calculation of ECL

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

For PDs, we consider the correlation of forward economic guidance to default rates. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates. For EAD calculations, we consider the correlation of forward economic guidance to potential utilization.

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

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

	UAE	
	2022	2021
Reported ECL (US$m)	**45**	158
Gross carrying/nominal amount (US$m)	**45,064**	44,767
Consensus central scenario	**41**	122
Consensus upside scenario	**30**	73
Consensus downside scenario	**55**	214
Downside 2 scenario	**93**	711

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

How economic scenarios are reflected in the retail calculation of ECL

The group has adopted a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macro-economic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

IFRS 9 ECL sensitivity to future economic conditions[1,2]

	UAE					
	Gross carrying amount	**Reported ECL**	**Central scenario ECL**	**Upside scenario ECL**	**Downside scenario ECL**	**Downside 2 scenario ECL**
At 31 Dec 2022	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Mortgages	**2,170**	**37**	**37**	**36**	**38**	**38**
Credit cards	**441**	**41**	**37**	**21**	**68**	**86**
Other	**718**	**17**	**17**	**15**	**19**	**22**
At 31 Dec 2021						
Mortgages	1,982	45	44	42	46	57
Credit cards	429	43	41	29	54	82
Other	615	19	18	13	21	25

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

Economic scenarios sensitivity analysis of ECL estimates

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

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

Management judgemental adjustments

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

At 31 December 2022, management judgemental adjustments reflect an overlay of $27m in wholesale portfolio (2021: $99m) and underlay of $7m in retail portfolio (2021: overlay of $9m).

Credit exposure

Maximum exposure to credit risk

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

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

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

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

Maximum exposure to credit risk

	2022			2021		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
	US$000	**US$000**	**US$000**	US$000	US$000	US$000
Loans and advances to customers held at amortised cost	**19,761,741**	**(155,215)**	**19,606,526**	18,623,781	(198,783)	18,424,998
Loans and advances to banks held at amortised cost	**9,056,676**	**–**	**9,056,676**	7,807,302	–	7,807,302
Other financial assets measured at amortised costs	**10,246,937**	**–**	**10,246,937**	6,488,477	–	6,488,477
– cash and balances at central banks	**1,056,445**	**–**	**1,056,445**	848,471	–	848,471
– items in the course of collection from other banks	**75,248**	**–**	**75,248**	53,900	–	53,900
– reverse repurchase agreements – non-trading	**5,293,684**	**–**	**5,293,684**	4,900,749	–	4,900,749
– financial investments[1]	**3,071,761**	**–**	**3,071,761**	–	–	–
– prepayments, accrued income and other assets	**749,799**	**–**	**749,799**	685,357	–	685,357
Derivatives	**1,789,977**	**(1,275,256)**	**514,721**	1,070,156	(810,874)	259,282
Total on-balance sheet	**40,855,331**	**(1,430,471)**	**39,424,860**	33,989,716	(1,009,657)	32,980,059
– financial guarantees and similar contracts	**6,832,388**	**–**	**6,832,388**	6,726,350	–	6,726,350
– loan and other credit-related commitments	**19,196,734**	**–**	**19,196,734**	18,330,346	–	18,330,346
Total off-balance sheet	**26,029,122**	**–**	**26,029,122**	25,056,696	–	25,056,696

1 *The disclosure has been updated to only include financial investments at amortised cost. Comparative data has been re-presented accordingly.*

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

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

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying CRR/PD movements of the financial instruments from stage transfers. This is captured, along with other credit quality movements in the 'Net new and further lending/(repayments) and changes in risk parameters' line item. This line also includes changes due to volume movements within the group's lending portfolio.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2022	32,342,131	(92,090)	3,814,563	(107,302)	1,165,386	(824,806)	5,798	(1,499)	37,327,878	(1,025,697)
Transfers of financial instruments:	935,736	(2,807)	(1,131,150)	38,725	195,414	(35,918)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(1,590,179)	12,557	1,590,179	(12,557)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	2,525,915	(15,364)	(2,525,915)	15,364	–	–	–	–	–	–
– Transfers to Stage 3	–	–	(204,158)	39,447	204,158	(39,447)	–	–	–	–
– Transfers from Stage 3	–	–	8,744	(3,529)	(8,744)	3,529	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	9,773	–	(14,467)	–	(144)	–	–	–	(4,838)
New financial assets originated or purchased	12,543,150	(29,063)	–	–	–	–	–	–	12,543,150	(29,063)
Asset derecognised (including final repayments)	(7,476,648)	9,088	(284,543)	12,681	(96,679)	5,472	(450)	–	(7,858,320)	27,241
Changes to risk parameters- further lending/repayments (including changes in credit quality)	(1,377,597)	64,719	(198,715)	10,121	15,374	(102,524)	(1,671)	(1,356)	(1,562,609)	(29,040)
Assets written off	–	–	–	–	(232,311)	232,311	–	–	(232,311)	232,311
Foreign exchange	(6,840)	14	(418)	15	57	(74)	–	–	(7,201)	(45)
Others	(330)	65	–	(3)	–	(11,196)	–	–	(330)	(11,134)
At 31 Dec 2022	36,959,602	(40,301)	2,199,737	(60,230)	1,047,241	(736,879)	3,677	(2,855)	40,210,257	(840,265)
ECL (charge)/release for the period	–	54,517	–	8,335	–	(97,196)	–	(1,356)	–	(35,700)
Recoveries	–	–	–	–	–	22,038	–	–	–	22,038
Others	–	–	–	–	–	(1)	–	–	–	(1)
Total ECL (charge)/ release for the period	–	54,517	–	8,335	–	(75,159)	–	(1,356)	–	(13,663)

	At 31 Dec 2022		Twelve months ended 31 Dec 2022
	Gross carrying/nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	40,210,257	(840,265)	(13,663)
Other financial assets measured at amortised cost	10,251,369	(4,432)	1,852
Performance and other guarantees not considered for IFRS 9	–	–	27,755
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	50,461,626	(844,697)	15,944
Debt instruments measured at FVOCI	4,647,469	(865)	693
Change in expected credit losses and other credit impairment charges	–	(845,562)	16,637

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2022 and that are still subject to enforcement activity is $49m.

As shown in the previous table, the allowance for ECL for loans and advances to customers and banks and relevant loan commitments and financial guarantees decreased by $185m during the year from $1,026m at 31 December 2021 to $840m at 31 December 2022.

This decrease was primarily driven by:

- $232m of assets written off; and
- $27m due to assets derecognised.

These were partly offset by:

- $5m on net remeasurement of ECL arising from transfer of stage;
- $29m relating to new financial assets originated or purchased;
- $29m relating to changes in risk parameters; and
- $11m relating to foreign exchange and other movements.

The ECL charge of $36m for the period presented in the previous table consist of $29m charge relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages, $5m charge relating to the net remeasurement impact of stage transfers, and $2m charge relating to underlying net book volume movement.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2021 (continued)[1]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2021	27,519,136	(109,969)	7,254,294	(285,739)	1,512,305	(1,005,515)	13,853	(1,499)	36,299,588	(1,402,722)
Transfers of financial instruments:	4,864,805	(97,061)	(5,005,417)	141,678	140,612	(44,617)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(3,615,031)	21,079	3,615,031	(21,079)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	8,479,836	(118,140)	(8,479,836)	118,140	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(228,823)	63,680	228,823	(63,680)	—	—	—	—
– Transfers from Stage 3	—	—	88,211	(19,063)	(88,211)	19,063	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	53,305	—	(18,089)	—	(121)	—	—	—	35,095
New financial assets originated or purchased	10,733,831	(38,443)	—	—	—	—	—	—	10,733,831	(38,443)
Asset derecognised (including final repayments)	(6,160,443)	10,690	(1,401,839)	18,651	(123,628)	34,520	—	—	(7,685,910)	63,861
Changes to risk parameters– further lending/repayments (including changes in credit quality)	(4,619,130)	89,199	2,968,377	31,017	(94,754)	(71,547)	(8,651)	(167)	(1,754,158)	48,502
Assets written off	—	—	—	—	(268,665)	268,665	(167)	167	(268,832)	268,832
Foreign exchange	3,932	(25)	(852)	39	(484)	(206)	763	—	3,359	(192)
Others	—	214	—	5,141	—	(5,985)	—	—	—	(630)
At 31 Dec 2021	32,342,131	(92,090)	3,814,563	(107,302)	1,165,386	(824,806)	5,798	(1,499)	37,327,878	(1,025,697)
ECL (charge)/release for the period	—	114,751	—	31,579	—	(37,148)	—	(167)	—	109,015
Recoveries	—	—	—	—	—	25,644	—	—	—	25,644
Others	—	—	—	—	—	(1)	—	—	—	(1)
Total ECL (charge)/release for the period	—	114,751	—	31,579	—	(11,505)	—	(167)	—	134,658

	At 31 Dec 2021		Twelve months ended 31 Dec 2021
	Gross carrying/nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	37,327,878	(1,025,697)	134,658
Other financial assets measured at amortised cost	6,494,761	(6,284)	(1,915)
Performance and other guarantees not considered for IFRS 9	—	—	11,495
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	43,822,639	(1,031,981)	144,238
Debt instruments measured at FVOCI	10,904,286	(1,550)	1,194
Change in expected credit losses and other credit impairment charges	—	(1,033,531)	145,432

1 *The disclosure has been enhanced to include further details on ECL and exposure movements during the period.*

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2021 and that are still subject to enforcement activity is $13m.

Wholesale lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2022	27,222,421	(57,209)	3,661,648	(78,321)	1,055,316	(758,604)	5,798	(1,499)	31,945,183	(895,633)
Transfers of financial instruments	1,074,922	(974)	(1,230,494)	16,628	155,572	(15,654)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(1,375,115)	7,163	1,375,115	(7,163)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	2,450,037	(8,137)	(2,450,037)	8,137	–	–	–	–	–	–
– Transfers to Stage 3	–	–	(155,633)	15,654	155,633	(15,654)	–	–	–	–
– Transfers from Stage 3	–	–	61	–	(61)	–	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	5,865	–	(6,118)	–	–	–	–	–	(253)
New financial assets originated or purchased	10,226,360	(6,892)	–	–	–	–	–	–	10,226,360	(6,892)
Asset derecognised (including final repayments)	(6,289,200)	909	(241,851)	3,129	(67,274)	3,006	(450)	–	(6,598,775)	7,044
Changes to risk parameters-further lending/repayments (including changes in credit quality)	(641,350)	44,827	(180,783)	39,599	(586)	(85,429)	(1,671)	(1,356)	(824,390)	(2,359)
Assets written off	–	–	–	–	(183,160)	183,160	–	–	(183,160)	183,160
Foreign exchange	(6,768)	17	(437)	18	54	(73)	–	–	(7,151)	(38)
Others	(330)	78	–	(3)	–	(11,151)	–	–	(330)	(11,076)
At 31 Dec 2022	31,586,055	(13,379)	2,008,083	(25,068)	959,922	(684,745)	3,677	(2,855)	34,557,737	(726,047)
ECL (charge)/release for the period	–	44,709	–	36,610	–	(82,423)	–	(1,356)	–	(2,460)
Recoveries	–	–	–	–	–	2,306	–	–	–	2,306
Others	–	–	–	–	–	(1)	–	–	–	(1)
Total ECL (charge)/release for the period	–	44,709	–	36,610	–	(80,118)	–	(1,356)	–	(155)
At 1 Jan 2021	22,712,710	(78,788)	6,957,601	(185,915)	1,354,196	(909,054)	13,853	(1,499)	31,038,360	(1,175,256)
Transfers of financial instruments:	4,720,649	(61,008)	(4,794,415)	64,570	73,766	(3,562)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(3,482,624)	18,149	3,482,624	(18,149)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	8,203,273	(79,157)	(8,203,273)	79,157	–	–	–	–	–	–
– Transfers to Stage 3	–	–	(135,774)	14,897	135,774	(14,897)	–	–	–	–
– Transfers from Stage 3	–	–	62,008	(11,335)	(62,008)	11,335	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	28,591	–	(14,584)	–	–	–	–	–	14,007
New financial assets originated or purchased	8,916,068	(21,323)	–	–	–	–	–	–	8,916,068	(21,323)
Asset derecognised (including final repayments)	(5,126,352)	2,470	(1,338,631)	3,155	(72,613)	23,569	–	–	(6,537,596)	29,194
Changes to risk parameters-further lending/repayments (including changes in credit quality)	(4,002,414)	72,653	2,837,943	49,274	(110,874)	(52,095)	(8,651)	(167)	(1,283,996)	31,576
Asset derecognised (including final repayments)	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	(188,625)	188,625	(167)	167	(188,792)	188,792
Foreign exchange	1,760	(18)	(850)	38	(534)	(159)	763	–	1,139	(139)
Others	–	214	–	5,141	–	(5,928)	–	–	–	(573)
At 31 Dec 2021	27,222,421	(57,209)	3,661,648	(78,321)	1,055,316	(758,604)	5,798	(1,499)	31,945,183	(895,633)
ECL (charge)/release for the period	–	82,391	–	37,845	–	(28,526)	–	(167)	–	91,543
Recoveries	–	–	–	–	–	4,940	–	–	–	4,940
Total ECL (charge)/release for the period	–	82,391	–	37,845	–	(23,586)	–	(167)	–	96,483

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2022

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2022	**5,119,710**	**(34,881)**	**152,915**	**(28,981)**	**110,070**	**(66,202)**	**5,382,695**	**(130,064)**
Transfers of financial instruments:	**(139,186)**	**(1,833)**	**99,344**	**22,097**	**39,842**	**(20,264)**	**—**	**—**
– Transfers from Stage 1 to Stage 2	**(215,064)**	**5,394**	**215,064**	**(5,394)**	**—**	**—**	**—**	**—**
– Transfers from Stage 2 to Stage 1	**75,878**	**(7,227)**	**(75,878)**	**7,227**	**—**	**—**	**—**	**—**
– Transfers to Stage 3	**—**	**—**	**(48,525)**	**23,793**	**48,525**	**(23,793)**	**—**	**—**
– Transfers from Stage 3	**—**	**—**	**8,683**	**(3,529)**	**(8,683)**	**3,529**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**3,908**	**—**	**(8,349)**	**—**	**(144)**	**—**	**(4,585)**
New financial assets originated or purchased	**2,316,790**	**(22,171)**	**—**	**—**	**—**	**—**	**2,316,790**	**(22,171)**
Asset derecognised (including final repayments)	**(1,187,448)**	**8,179**	**(42,692)**	**9,552**	**(29,405)**	**2,466**	**(1,259,545)**	**20,197**
Changes to risk parameters- further lending/ repayments (including changes in credit quality)	**(736,247)**	**19,892**	**(17,932)**	**(29,478)**	**15,960**	**(17,095)**	**(738,219)**	**(26,681)**
Assets written off	**—**	**—**	**—**	**—**	**(49,151)**	**49,151**	**(49,151)**	**49,151**
Foreign exchange	**(72)**	**(3)**	**19**	**(3)**	**3**	**(1)**	**(50)**	**(7)**
Others	**—**	**(13)**	**—**	**—**	**—**	**(45)**	**—**	**(58)**
At 31 Dec 2022	**5,373,547**	**(26,922)**	**191,654**	**(35,162)**	**87,319**	**(52,134)**	**5,652,520**	**(114,218)**
ECL (charge)/release for the period	**—**	**9,808**	**—**	**(28,275)**	**—**	**(14,773)**	**—**	**(33,240)**
Recoveries	**—**	**—**	**—**	**—**	**—**	**19,732**	**—**	**19,732**
Others	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total ECL (charge)/release for the period	**—**	**9,808**	**—**	**(28,275)**	**—**	**4,959**	**—**	**(13,508)**

At 1 Jan 2021	4,806,426	(31,181)	296,694	(99,824)	158,109	(96,461)	5,261,229	(227,466)
Transfers of financial instruments:	144,156	(36,053)	(211,002)	77,108	66,846	(41,055)	—	—
– Transfers from Stage 1 to Stage 2	(132,407)	2,932	132,407	(2,932)	—	—	—	—
– Transfers from Stage 2 to Stage 1	276,563	(38,985)	(276,563)	38,985	—	—	—	—
– Transfers to Stage 3	—	—	(93,049)	48,783	93,049	(48,783)	—	—
– Transfers from Stage 3	—	—	26,203	(7,728)	(26,203)	7,728	—	—
Net remeasurement of ECL arising from transfer of stage	—	24,714	—	(3,505)	—	(121)	—	21,088
New financial assets originated or purchased	1,817,763	(17,120)	—	—	—	—	1,817,763	(17,120)
Asset derecognised (including final repayments)	(1,034,091)	8,220	(63,208)	15,495	(51,015)	10,951	(1,148,313)	34,666
Changes to risk parameters- further lending/ repayments (including changes in credit quality)	(616,716)	16,546	130,434	(18,256)	16,120	(19,452)	(470,163)	(21,162)
Assets written off	—	—	—	—	(80,040)	80,040	(80,040)	80,040
Foreign exchange	2,172	(7)	(3)	1	50	(47)	2,219	(53)
Others	—	—	—	—	—	(57)	—	(57)
At 31 Dec 2021	5,119,710	(34,881)	152,915	(28,981)	110,070	(66,202)	5,382,695	(130,064)
ECL release/(charge) for the period	—	32,360	—	(6,266)	—	(8,622)	—	17,472
Recoveries	—	—	—	—	—	20,704	—	20,704
Others	—	—	—	—	—	(1)	—	(1)
Total ECL (charge)/release for the period	—	32,360	—	(6,266)	—	12,081	—	38,175

Credit quality of financial instruments

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

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

Credit quality classification

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

1 *Customer risk rating.*
2 *12-month point-in-time probability weighted probability of default ('PD').*

Quality classification definitions

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

Risk rating scales

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

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

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

Distribution of financial instruments by credit quality at 31 December 2022

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-Standard	Credit impaired	Total	Allowance for ECL	Net
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**8,478,558**	**4,194,527**	**6,156,680**	**727,349**	**1,035,960**	**20,593,074**	**(831,333)**	**19,761,741**
Loans and advances to banks held at amortised cost	**7,972,600**	**425,652**	**661,510**	**74**	**–**	**9,059,836**	**(3,160)**	**9,056,676**
Cash and balances at central banks	**1,007,865**	**38,641**	**10,155**	**–**	**–**	**1,056,661**	**(216)**	**1,056,445**
Items in the course of collection from other banks	**75,248**	**–**	**–**	**–**	**–**	**75,248**	**–**	**75,248**
Reverse repurchase agreements – non-trading	**4,729,176**	**398,003**	**166,505**	**–**	**–**	**5,293,684**	**–**	**5,293,684**
Prepayments, accrued income and other assets	**105,416**	**127,304**	**441,214**	**75,967**	**3,816**	**753,717**	**(3,918)**	**749,799**
– endorsements and acceptances	**42,698**	**104,241**	**144,374**	**75,967**	**486**	**367,766**	**(476)**	**367,290**
– accrued income and other	**62,718**	**23,063**	**296,840**	**–**	**3,330**	**385,951**	**(3,442)**	**382,509**
Financial investments at amortised cost	**2,162,535**	**–**	**909,524**	**–**	**–**	**3,072,059**	**(298)**	**3,071,761**
Debt instruments measured at fair value through other comprehensive income[1]	**4,035,995**	**–**	**684,744**	**–**	**–**	**4,720,739**	**(865)**	**4,719,874**
Out-of-scope for IFRS 9								
Trading assets	**1,467,420**	**82,888**	**235,415**	**–**	**290**	**1,786,013**	**–**	**1,786,013**
Derivatives	**1,736,978**	**31,460**	**20,298**	**1,241**	**–**	**1,789,977**	**–**	**1,789,977**
Total gross carrying amount on balance sheet	**31,771,791**	**5,298,475**	**9,286,045**	**804,631**	**1,040,066**	**48,201,008**	**(839,790)**	**47,361,218**
Percentage of total credit quality	**66%**	**11%**	**19%**	**2%**	**2%**	**100%**		
Loan and other credit related commitments	**4,463,436**	**1,886,376**	**1,705,468**	**41,263**	**4,058**	**8,100,601**	**(5,174)**	**8,095,427**
Financial guarantees	**2,043,090**	**180,243**	**214,718**	**7,795**	**10,900**	**2,456,746**	**(598)**	**2,456,148**
Total nominal amount off balance sheet	**6,506,526**	**2,066,619**	**1,920,186**	**49,058**	**14,958**	**10,557,347**	**(5,772)**	**10,551,575**
At 31 Dec 2022	**38,278,317**	**7,365,094**	**11,206,231**	**853,689**	**1,055,024**	**58,758,355**	**(845,562)**	**57,912,793**

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

In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	6,065,555	5,494,422	5,738,913	1,162,903	1,157,148	19,618,941	(995,160)	18,623,781
Loans and advances to banks held at amortised cost	6,546,636	467,918	795,984	32	–	7,810,570	(3,268)	7,807,302
Cash and balances at central banks	848,873	–	–	–	–	848,873	(402)	848,471
Items in the course of collection from other banks	53,900	–	–	–	–	53,900	–	53,900
Reverse repurchase agreements – non-trading	4,309,649	327,656	263,444	–	–	4,900,749	–	4,900,749
Prepayments, accrued income and other assets	72,453	143,079	441,444	28,088	6,175	691,239	(5,882)	685,357
– endorsements and acceptances	62,332	137,959	238,330	28,088	2,879	469,588	(2,580)	467,008
– accrued income and other	10,121	5,120	203,114	–	3,296	221,651	(3,302)	218,349
Financial investments at amortised cost	–	–	–	–	–	–	–	–
Debt instruments measured at fair value through other comprehensive income	9,310,519	–	1,593,767	–	–	10,904,286	(1,550)	10,902,736
Out-of-scope for IFRS 9								
Trading assets	667,586	61,472	377,124	–	–	1,106,182	–	1,106,182
Derivatives	978,193	59,290	32,040	–	633	1,070,156	–	1,070,156
Total gross carrying amount on balance sheet	28,853,364	6,553,837	9,242,716	1,191,023	1,163,956	47,004,896	(1,006,262)	45,998,634
Percentage of total credit quality	61%	14%	20%	3%	2%	100%		
Loan and other credit related commitments	3,530,040	2,527,768	1,430,960	65,861	1,081	7,555,710	(14,167)	7,541,543
Financial guarantees	1,855,658	199,356	259,031	19,956	8,656	2,342,657	(13,102)	2,329,555
Total nominal amount off balance sheet	5,385,698	2,727,124	1,689,991	85,817	9,737	9,898,367	(27,269)	9,871,098
At 31 Dec 2021	34,239,062	9,280,961	10,932,707	1,276,840	1,173,693	56,903,263	(1,033,531)	55,869,732

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2022

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Gross carrying amount on balance sheet	**28,567,393**	**5,184,127**	**9,030,332**	**803,390**	**1,039,776**	**44,625,018**	**(839,790)**	**43,785,228**
Loans and advances to customers held at amortised cost	8,478,558	4,194,527	6,156,680	727,349	1,035,960	20,593,074	(831,333)	19,761,741
– stage 1	8,478,344	4,083,071	5,165,992	43,964	–	17,771,371	(34,836)	17,736,535
– stage 2	214	111,456	990,688	683,385	–	1,785,743	(56,877)	1,728,866
– stage 3	–	–	–	–	1,032,283	1,032,283	(736,765)	295,518
– POCI	–	–	–	–	3,677	3,677	(2,855)	822
Loans and advances to banks held at amortised cost	7,972,600	425,652	661,510	74	–	9,059,836	(3,160)	9,056,676
– stage 1	7,971,668	388,857	524,379	–	–	8,884,904	(1,775)	8,883,129
– stage 2	932	36,795	137,131	74	–	174,932	(1,385)	173,547
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised costs	8,080,240	563,948	1,527,398	75,967	3,816	10,251,369	(4,432)	10,246,937
– stage 1	8,080,204	563,493	1,498,347	5,070	–	10,147,114	(710)	10,146,404
– stage 2	36	455	29,051	70,897	–	100,439	(147)	100,292
– stage 3	–	–	–	–	3,816	3,816	(3,575)	241
– POCI	–	–	–	–	–	–	–	–
Debt instruments measured at fair value through other comprehensive income[1]	4,035,995	–	684,744	–	–	4,720,739	(865)	4,719,874
– stage 1	4,035,995	–	684,744	–	–	4,720,739	(865)	4,719,874
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Nominal amount off balance sheet	**6,506,526**	**2,066,619**	**1,920,186**	**49,058**	**14,958**	**10,557,347**	**(5,772)**	**10,551,575**
Loan and other credit-related commitments	4,463,436	1,886,376	1,705,468	41,263	4,058	8,100,601	(5,174)	8,095,427
– stage 1	4,458,959	1,857,658	1,614,527	19,659	–	7,950,803	(3,451)	7,947,352
– stage 2	4,477	28,718	90,941	21,604	–	145,740	(1,611)	144,129
– stage 3	–	–	–	–	4,058	4,058	(112)	3,946
– POCI	–	–	–	–	–	–	–	–
Financial guarantees	2,043,090	180,243	214,718	7,795	10,900	2,456,746	(598)	2,456,148
– stage 1	2,042,525	176,982	130,667	2,350	–	2,352,524	(239)	2,352,285
– stage 2	565	3,261	84,051	5,445	–	93,322	(357)	92,965
– stage 3	–	–	–	–	10,900	10,900	(2)	10,898
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2022	**35,073,919**	**7,250,746**	**10,950,518**	**852,448**	**1,054,734**	**55,182,365**	**(845,562)**	**54,336,803**

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

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2021[1] (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Gross carrying amount on balance sheet	27,207,585	6,433,075	8,833,552	1,191,023	1,163,323	44,828,558	(1,006,262)	43,822,296
Loans and advances to customers held at amortised cost	6,065,555	5,494,422	5,738,913	1,162,903	1,157,148	19,618,941	(995,160)	18,623,781
– stage 1	5,737,853	5,089,142	4,123,182	288,372	—	15,238,549	(78,892)	15,159,657
– stage 2	327,702	405,280	1,615,731	870,232	—	3,218,945	(90,052)	3,128,893
– stage 3	—	—	—	—	1,155,649	1,155,649	(824,717)	330,932
– POCI	—	—	—	4,299	1,499	5,798	(1,499)	4,299
Loans and advances to banks held at amortised cost	6,546,636	467,918	795,984	32	—	7,810,570	(3,268)	7,807,302
– stage 1	6,546,636	442,918	795,984		—	7,785,538	(3,093)	7,782,445
– stage 2	—	25,000	—	32	—	25,032	(175)	24,857
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised costs	5,284,875	470,735	704,888	28,088	6,175	6,494,761	(6,284)	6,488,477
– stage 1	5,278,697	451,292	651,507	1,444	—	6,382,940	(976)	6,381,964
– stage 2	6,178	19,443	53,381	26,644	—	105,646	(495)	105,151
– stage 3	—	—	—	—	6,175	6,175	(4,813)	1,362
– POCI						—	—	—
Debt instruments measured at fair value through other comprehensive income	9,310,519	—	1,593,767	—	—	10,904,286	(1,550)	10,902,736
– stage 1	9,310,519	—	1,593,767	—	—	10,904,286	(1,550)	10,902,736
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Nominal amount off balance sheet	5,385,698	2,727,124	1,689,991	85,817	9,737	9,898,367	(27,269)	9,871,098
Loan and other credit-related commitments	3,530,040	2,527,768	1,430,960	65,861	1,081	7,555,710	(14,167)	7,541,543
– stage 1	3,379,376	2,480,646	1,292,512	49,067	—	7,201,601	(7,036)	7,194,565
– stage 2	150,664	47,122	138,448	16,794	—	353,028	(7,044)	345,984
– stage 3	—	—	—	—	1,081	1,081	(87)	994
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	1,855,658	199,356	259,031	19,956	8,656	2,342,657	(13,102)	2,329,555
– stage 1	1,824,902	138,736	152,560	245		2,116,443	(3,069)	2,113,374
– stage 2	30,756	60,620	106,471	19,711		217,558	(10,031)	207,527
– stage 3	—	—	—	—	8,656	8,656	(2)	8,654
– POCI	—	—	—	—	—	—		—
At 31 Dec 2021	32,593,283	9,160,199	10,523,543	1,276,840	1,173,060	54,726,925	(1,033,531)	53,693,394

1 *The disclosure has been enhanced to include stage wise breakdown for each line item.*

Past due but not impaired gross financial instruments

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

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

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

Stage 2 days past due analysis

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD
	US$000	US$000	US$000	US$000	US$000	US$000	%	%	%
Loans and advances to customers held at amortised cost	**1,785,743**	**37,902**	**55,195**	**(56,877)**	**(4,999)**	**(5,889)**	**(3.2)**	**(13.2)**	**(10.7)**
– personal	**183,780**	**11,997**	**14,524**	**(37,016)**	**(4,787)**	**(5,665)**	**(20.1)**	**(39.9)**	**(39.0)**
– corporate and commercial	**1,601,963**	**25,905**	**40,671**	**(19,861)**	**(212)**	**(224)**	**(1.2)**	**(0.8)**	**(0.6)**
– non-bank financial institutions	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loans and advances to banks at amortised cost	**174,932**	**—**	**—**	**(1,385)**	**—**	**—**	**(0.8)**	**—**	**—**
Other financial assets measured at amortised cost	**100,439**	**131**	**289**	**(147)**	**—**	**—**	**(0.1)**	**—**	**—**
At 31 Dec 2022	**2,061,114**	**38,033**	**55,484**	**(58,409)**	**(4,999)**	**(5,889)**	**(2.8)**	**(13.1)**	**(10.6)**
Loans and advances to customers held at amortised cost	3,218,945	126,694	20,106	(90,051)	(6,312)	(7,092)	(2.8)	(5.0)	(35.3)
– personal	144,004	20,306	16,469	(28,988)	(4,265)	(6,970)	(20.1)	(21.0)	(42.3)
– corporate and commercial	3,067,801	106,388	3,637	(61,063)	(2,047)	(122)	(2.0)	(1.9)	(3.4)
– non-bank financial institutions	7,140	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	25,032	—	—	(175)	—	—	(0.7)	—	—
Other financial assets measured at amortised cost	105,646	—	—	(495)	—	—	(0.5)	—	—
At 31 Dec 2021	3,349,623	126,694	20,106	(90,721)	(6,312)	(7,092)	(2.7)	(5.0)	(35.3)

Impaired loans

Impaired and stage 3 loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as CRR 9 or CRR 10. These grades are assigned when the group considers that either the customer is unlikely to pay their credit obligations in full without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the group.
- Retail loans and advances classified as Band 10. These grades are typically assigned to retail loans and advances more than 90 days past due unless individually they have been assessed as not impaired.
- Forborne loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Forborne loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment.

Forborne loans and advances

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

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

For our wholesale portfolio, we began identifying non-payment-related concessions in 2021. For our retail portfolios, we began identifying them during 2022.

The comparative disclosures have been presented under the prior definition of forborne for the wholesale and retail portfolios.

Credit quality of forborne loans

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

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

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

Forborne loans and recognition of expected credit losses

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

Forborne loans and advances to customers by industry sector at 31 December 2022

	First lien residential mortgages US$000	Other personal lending US$000	Corporate and commercial US$000	Non-bank financial institutions US$000	Total forborne loans US$000
Stage 1	**—**	**—**	**—**	**—**	**—**
Stage 2	**11,110**	**3,919**	**430,384**	**—**	**445,413**
Stage 3	**17,783**	**3,461**	**507,878**	**3,115**	**532,237**
Forborne loans At 31 Dec 2022	**28,893**	**7,380**	**938,262**	**3,115**	**977,650**
Allowance for expected credit losses on forborne loans					**358,927**
Stage 1	—	—	405	—	405
Stage 2	—	6	89,480	—	89,486
Stage 3	48,718	16,619	379,123	3,115	447,575
Forborne loans At 31 Dec 2021	48,718	16,625	469,008	3,115	537,466
Allowance for expected credit losses on forborne loans					318,596

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

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
At 31 Dec 2022	**Total US$000**	**As a % of total gross loans %**
Personal		
– residential mortgages	**2,130,538**	**10.3**
– other personal	**1,796,416**	**8.7**
	3,926,954	**19.1**
Corporate and commercial		
– commercial, industrial and international trade	**9,548,329**	**46.4**
– commercial real estate and other property-related	**2,725,789**	**13.2**
– government	**1,620,291**	**7.9**
– other corporate and commercial	**2,619,533**	**12.7**
	16,513,942	**80.2**
Financial		
– non-bank financial institutions	**152,178**	**0.7**
Total gross loans and advances to customers	**20,593,074**	**100.0**
Impaired loans		
– as a percentage of gross loans and advances to customers	**5.03%**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**4.04%**	
At 31 Dec 2021		
Personal		
– residential mortgages	1,952,556	10.0
– other personal	1,625,337	8.2
	3,577,893	18.2
Corporate and commercial		
– commercial, industrial and international trade	8,859,072	45.2
– commercial real estate and other property-related	2,554,613	13.0
– government	2,004,280	10.2
– other corporate and commercial	2,430,994	12.4
	15,848,959	80.8
Financial		
– non-bank financial institutions	192,089	1.0
Total gross loans and advances to customers	19,618,941	100.0
Impaired loans		
– as a percentage of gross loans and advances to customers	5.92%	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	5.08%	

Collateral and other credit enhancements held

Loans and advances held at amortised cost

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

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

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

Personal lending: residential mortgage loans including loan commitments by level of collateral at 31 December

	Gross carrying/nominal amount	
	2022	2021
	US$000	US$000
Stage 1		
Fully collateralised	**2,010,135**	1,818,335
LTV ratio:		
– less than 50%	**792,218**	493,851
– 51% to 60%	**536,463**	499,712
– 61% to 70%	**357,732**	492,791
– 71% to 80%	**302,684**	257,165
– 81% to 90%	**10,115**	57,835
– 91% to 100%	**10,923**	16,981
Partially collateralised (A):	**10,501**	14,689
LTV ratio:		
– 101% to 110%	**1,273**	4,932
– 111% to 120%	**805**	3,442
– greater than 120%	**8,423**	6,315
– *collateral value on A*	***8,199***	*13,032*
Total	**2,020,636**	1,833,024
Stage 2		
Fully collateralised	**67,965**	61,906
LTV ratio:		
– less than 50%	**35,641**	22,630
– 51% to 60%	**18,091**	15,797
– 61% to 70%	**8,661**	15,390
– 71% to 80%	**4,822**	2,856
– 81% to 90%	**620**	3,855
– 91% to 100%	**130**	1,378
Partially collateralised (B):	**1,355**	3,380
LTV ratio:		
– 101% to 110%	**537**	343
– 111% to 120%	**132**	3,007
– greater than 120%	**686**	30
– *collateral value on B*	***1,119***	*2,114*
Total	**69,320**	65,286
Stage 3		
Fully collateralised	**36,099**	45,507
LTV ratio:		
– less than 50%	**12,435**	10,801
– 51% to 60%	**4,222**	3,272
– 61% to 70%	**6,961**	7,938
– 71% to 80%	**4,507**	11,006
– 81% to 90%	**6,231**	5,925
– 91% to 100%	**1,743**	6,565
Partially collateralised (C):	**4,483**	8,739
LTV ratio:		
– 101% to 110%	**–**	2,996
– 111% to 120%	**963**	886
– greater than 120%	**3,520**	4,857
– *collateral value on C*	***1,659***	*5,249*
Total	**40,582**	54,246
At 31 Dec	**2,130,538**	1,952,556

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

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

Other personal lending

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

Collateral on loans and advances

Commercial real estate loans and advances

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

Wholesale lending: commercial real estate loans and advances including loan commitments by level of collateral at 31 December

	Gross carrying/nominal amount	
	2022	2021
	US$000	US$000
Stage 1		
Not collateralised	**1,186,118**	516,922
Fully collateralised	**226,139**	164,841
LTV ratio:		
– less than 50%	**37,074**	2,744
– 51% to 75%	**171,115**	–
– 76% to 90%	**–**	40,114
– 91% to 100%	**17,950**	121,983
Partially collateralised (A):	**330,455**	183,138
– *collateral value on A*	***206,808***	*100,269*
Total	**1,742,712**	864,901
Stage 2		
Not collateralised	**221,597**	466,011
Fully collateralised	**–**	153,472
LTV ratio:		
– less than 50%	**–**	80,432
– 51% to 75%	**–**	69,850
– 76% to 90%	**–**	239
– 91% to 100%	**–**	2,951
Partially collateralised (B):	**104,027**	176,082
– *collateral value on B*	***69,405***	*133,043*
Total	**325,624**	795,565
Stage 3		
Not collateralised	**47,198**	30,747
Fully collateralised	**36,909**	141,051
LTV ratio:		
– less than 50%	**–**	–
– 51% to 75%	**–**	5,974
– 76% to 90%	**36,909**	38,607
– 91% to 100%	**–**	96,470
Partially collateralised (C):	**180,049**	–
– *collateral value on C*	***102,921***	–
Total	**264,156**	171,798
At 31 Dec	**2,332,492**	1,832,264

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

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

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

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral by stage at 31 December

	Gross carrying/nominal amount	
	2022	2021
	US$000	US$000
Stage 1		
Not collateralised	**26,168,650**	22,205,850
Fully collateralised	**543,768**	715,125
LTV ratio:		
– less than 50%	**70,729**	171,758
– 51% to 75%	**28,416**	32,356
– 76% to 90%	**14,438**	95,317
– 91% to 100%	**430,185**	415,694
Partially collateralised (A):	**1,086,497**	1,084,136
– *collateral value on A*	***292,972***	*226,007*
Total	**27,798,915**	24,005,111
Stage 2		
Not collateralised	**1,429,304**	4,159,170
Fully collateralised	**75,638**	185,925
LTV ratio:		
– less than 50%	**4,429**	8,299
– 51% to 75%	**2,164**	80,637
– 76% to 90%	**63,060**	17,452
– 91% to 100%	**5,985**	79,537
Partially collateralised (B):	**382,814**	577,741
– *collateral value on B*	***147,608***	*301,943*
Total	**1,887,756**	4,922,836
Stage 3		
Not collateralised	**437,048**	696,785
Fully collateralised	**25,126**	26,517
LTV ratio:		
– less than 50%	**2,952**	1,658
– 51% to 75%	**21,494**	2
– 76% to 90%	**—**	2,689
– 91% to 100%	**680**	22,168
Partially collateralised (C):	**229,954**	222,540
– *collateral value on C*	***63,113***	*68,538*
Total	**692,128**	945,842
POCI		
Not collateralised	**1,499**	1,499
Fully collateralised	**—**	4,299
LTV ratio:		
– 91% to 100%	**—**	4,299
Partially collateralised (C):	**2,308**	—
– *collateral value on C*	***249***	—
Total	**3,807**	5,798
At 31 Dec	**30,382,606**	29,879,587

Other credit risk exposures

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

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

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

Derivatives

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

Treasury Risk

Overview

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

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

Approach and policy

Our objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support our business strategy, and meet our regulatory and stress testing-related requirements. Our approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting both consolidated and local regulatory requirements at all times.

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

Governance and structure

The Global Head of Traded and Treasury Risk Management and Risk Analytics is the accountable risk steward for all treasury risks. The Group Treasurer is the risk owner for all treasury risks, with the exception of pension risk, which is co-owned together with the Group Head of Performance, Reward and Employee Relations.

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

Assessment and risk appetite

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

We aim to ensure that management has oversight of our liquidity and funding risks by maintaining comprehensive policies, metrics and controls. We meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively. These metrics are set and managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the Group's policies and controls.

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

The Treasury function uses a number of measures to monitor and control interest rate risk in the banking book, including:

- net interest income sensitivity;
- economic value of equity sensitivity; and
- non-trading value at risk.

Stress testing and recovery planning

We use stress testing to evaluate the robustness of plans and risk portfolios. Stress testing also informs the ICAAP and ILAAP and supports recovery planning. It is an important output used to evaluate how much capital and liquidity we require in setting risk appetite for capital and liquidity risk. It is also used to re-evaluate business plans where analysis shows capital, liquidity and/or returns do not meet their target.

Risks to capital and liquidity

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

Liquidity and Funding

Overview

At 31 December 2022, we were above regulatory minimum liquidity and funding levels. We maintain sufficient unencumbered liquid assets to comply with local and regulatory requirements. We further consider an internal liquidity metric, which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Contingency planning

We maintain a contingency plan which can be enacted in the event of internal or external triggers which threaten the liquidity or funding position. We also have a recovery plan addressing the actions that management would consider taking in a stress scenario if the position deteriorates and threatens to breach risk appetite and regulatory minimum levels. The recovery plan sets out a range of appropriate actions which could feasibly be executed in a stressed environment to recover the position.

Management of Liquidity and Funding Risk

Liquidity coverage ratio ('LCR')

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets to meet its liquidity needs in a 30 calendar day liquidity stress scenario. For the calculation of the LCR, HSBC Group follows the guidelines set by the European Commission and we follow the Dubai Financial Services Authority ('DFSA') approach.

Net stable funding ratio ('NSFR')

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

Depositor concentration and wholesale market term funding maturity concentration

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

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

Liquid assets

Liquid assets are held and managed on a stand-alone operating entity basis. Most are held directly by the Markets Treasury department, primarily for the purpose of managing liquidity risk in line with the internal policy.

Liquid assets also include any unencumbered liquid assets held outside Markets Treasury departments for any other purpose. The internal framework gives ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

Further details in respect of the group's Liquidity and Funding ratios are set out on page 75.

Primary sources of funding

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

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

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

Of total liabilities of US$42,643m at 31 December 2022, funding from customers amounted to US$29,975m, of which US$29,921m was contractually repayable within one year.

An analysis of cash flows payable by the group under financial liabilities by remaining contractual maturities at the balance sheet date is included in Note 27.

Assets available to meet these liabilities, and to cover outstanding commitments to lend (US$19,197m), included cash, central bank balances, items in the course of collection and treasury and other bills (US$2,607m); loans to banks (US$9,057m, including US$7,577m repayable within one year); and loans to customers (US$19,762m, including US$9,024m repayable within one year). In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

Market risk

Market risk management

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

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

Market risk measures

Monitoring and limiting market risk exposures

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

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

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

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

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

Sensitivity analysis

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

Value at risk

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

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

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

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

Trading and non-trading portfolio

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

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

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

Value at risk of the trading and non-trading portfolio

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

Value at risk

	2022	2021
	US$000	US$000
At 31 Dec	**12,420**	3,881
Average	**7,046**	4,070
Maximum	**12,783**	6,097
Minimum	**3,706**	2,171

Interest rate models, which serve as an input to the VaR, were re-calibrated in 2022 to reflect the significant upward shifts in global interest rates.

Trading portfolios

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

Market-making and position-taking is undertaken within MSS. The VaR for such trading intent activity at 31 December 2022 was US$5.7m (2021: US$1.6m).

VaR by risk type for the trading intent activities

	Foreign exchange (FX)	Interest rate	Credit spread	Total
	US$000	US$000	US$000	US$000
At 31 Dec 2022[1]	**230**	**5,646**	**444**	**5,691**
Average	**626**	**3,230**	**401**	**3,418**
Maximum	**1,934**	**8,141**	**888**	**8,251**
Minimum	**150**	**1,093**	**183**	**1,260**
At 31 Dec 2021	378	1,501	517	1,595
Average	990	2,667	580	2,931
Maximum	2,102	5,038	1,733	5,261
Minimum	252	1,367	211	1,546

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

Non-trading portfolios

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

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

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

VaR by risk type for the non-trading activities

	Interest rate	Credit spread	Total
	US$000	US$000	US$000
At 31 Dec 2022	**12,047**	**434**	**12,135**
Average	**6,893**	**571**	**7,072**
Maximum	**12,845**	**927**	**12,972**
Minimum	**3,227**	**390**	**3,383**
At 31 Dec 2021	3,273	649	3,409
Average	3,039	956	3,213
Maximum	4,852	1,649	5,151
Minimum	1,383	469	2,106

Gap risk

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

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

The group incurred no material losses (2021: nil) arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2022.

De-peg risk

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

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

Structural foreign exchange exposures

Structural foreign exchange exposures represent net investments in subsidiaries, branches or associates, the functional currencies of which are currencies other than the US dollar. An entity's functional currency is the currency of the primary economic environment in which the entity operates.

Exchange differences on structural exposures are recorded in 'Other comprehensive income'. The main operating currencies of the group are UAE dirham and other Gulf currencies that are linked to the US dollar.

The group's policy is to hedge structural foreign currency exposures only in limited circumstances. The group's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group's capital ratio is protected from the effect of changes in exchange rates. This is usually achieved by ensuring that the rates of structural exposures in a given currency to risk-weighted assets denominated in that currency is broadly equal to the capital ratio. The group considers hedging structural foreign currency exposures only in limited circumstances to protect the capital ratio or the US dollar value of capital invested.

Such hedging would be undertaken using forward foreign exchange contracts or by financing the borrowings in the same currencies as the functional currencies involved.

Net interest income sensitivity

A principal part of the group's management of market risk in non-trading portfolios is monitoring the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The group aims, through our management of market risk in non-trading portfolios, to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of hedging such activities on the current net revenue stream.

For simulation modelling, businesses use a combination of scenarios relevant to their local businesses and markets and standard scenarios which are required throughout the HSBC Group. The latter are consolidated to illustrate the combined pro forma effect on the group's consolidated portfolio valuations and net interest income.

Projected net interest income sensitivity figures represent the effect of the pro forma movements in net interest income based on the projected yield curve scenarios and the group's current interest rate risk profile. This effect, however, does not incorporate actions which would probably be taken by MSS or in the business units to mitigate the effect of interest rate risk. In reality, MSS seeks proactively to change the interest rate risk profile to minimise losses and optimise net revenues. The projections also assume that interest rates of all maturities move by the same amount (although rates are not assumed to become negative in the falling rates scenario) and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. In addition, the projections take account of the effect on net interest income of anticipated differences in changes between interbank interest rates and interest rates linked to other bases (such as Central Bank rates or product rates over which the entity has discretion in terms of the timing and extent of rate changes). The projections make other simplifying assumptions, including that all positions run to maturity.

Capital management

The Dubai Financial Services Authority ('DFSA') is the lead regulator of the bank.

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

The DFSA supervises the bank and, receives information on the capital adequacy of, and sets capital requirements for, the bank. Individual branches and subsidiaries are directly regulated by their local banking supervisors, where applicable, who set and monitor their capital adequacy requirements.

Further details in respect of the group's Capital requirement are set out on page 77.

33 Contingent liabilities, contractual commitments and guarantees

	2022 US$000	2021 US$000
Guarantees and other contingent liabilities		
Guarantees	**17,271,717**	17,248,568
Commitments		
Documentary credits and short-term trade-related transactions	**1,003,673**	510,891
Undrawn formal standby facilities, credit lines and other commitments to lend	**18,193,061**	17,819,455
At 31 Dec	**19,196,734**	18,330,346

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

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

	2022	2021
	US$000	US$000
Guarantees and assets pledged by the bank as collateral security	4,269,901	3,988,589
Documentary credits and short-term trade-related transactions	102,210	133,902
At 31 Dec	4,372,111	4,122,491

Guarantees

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

	2022		2021	
	Guarantees in favour of third parties	Guarantees by the group in favour of other HSBC Group entities	Guarantees in favour of third parties	Guarantees by the group in favour of other HSBC Group entities
	US$000	US$000	US$000	US$000
Financial guarantees[1]	665,455	1,791,291	762,757	1,579,900
Credit-related guarantees[2]	3,681,321	694,321	3,740,578	674,202
Other guarantees	8,655,040	1,784,289	8,756,644	1,734,487
At 31 Dec	13,001,816	4,269,901	13,259,979	3,988,589

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

Other commitments

In addition to the commitments disclosed above, at 31 December 2022 the group had no capital commitments to purchase, within one year, land and building and other fixed assets (2021: nil).

Associates

The group and its operations are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. Management is of the opinion that the eventual outcome of the legal and financial liability is not expected to materially affect the group's financial position and operations.

34 Finance lease receivables

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

	2022			2021		
	Total future minimum payments	Unearned finance income	Present value	Total future minimum payments	Unearned finance income	Present value
	US$000	US$000	US$000	US$000	US$000	US$000
Lease receivables:						
– no later than one year	9,389	(1,225)	8,164	8,183	(1,350)	6,833
– later than one year and no later than five years	36,996	(2,099)	34,897	42,736	(3,353)	39,383
– later than five years	1,922	(89)	1,833	4,092	(204)	3,888
At 31 Dec	48,307	(3,413)	44,894	55,011	(4,907)	50,104

35 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2022. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matters

(Matters relevant to the group as a subsidiary of HSBC operating in the Middle East).

In December 2012, HSBC Holdings entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013 and again in 2020) as well as a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering

('AML') and sanctions-related obligations. For several years thereafter, HSBC retained a Skilled Person under section 166 of the UK Financial Services and Markets Act and an Independent Consultant under the FRB cease-and-desist order to produce periodic assessments of the Group's AML and sanctions compliance programme. The Skilled Person completed its engagement in the second quarter of 2021, and the FCA determined that no further Skilled Person work is required. Separately, the Independent Consultant's engagement is now complete and, in August 2022, the FRB terminated its cease-and-desist order.

US Anti-Terrorism Act Related Litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies including HSBC Bank Middle East Limited and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in the Middle East. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. Eight actions that include HSBC Bank Middle East Limited remain pending in federal courts and HSBC's motions to dismiss have been granted in four of these cases. In January 2023, the appellate court affirmed the dismissal of one of the cases, and the plaintiff's request for review of this decision by the full appellate court has been denied. The dismissals in the other three cases are subject to appeal. The four remaining actions are at an early stage.

Other litigation

In 2019, the group was included as a defendant in a US$30m claim filed before the Courts of the United Arab Emirates against other joint defendants for the provision of banking information and documents only. The plaintiff later amended the claim to include the group as a defendant to the monetary claims already filed against the other co-defendants. In November 2020, the Court of First Instance dismissed the case in its entirety against all defendants including the group, and this judgment was upheld by the Court of Appeal in September 2022. In November 2022, the Plaintiff filed a challenge before the Court of Cassation where the case is currently pending.

The potential undiscounted amount of the total payments that the group could be required to make, if there was an adverse decision related to the lawsuit, is estimated to be approximately US$30m plus interest and costs. Management believes that, based on the information available to it, it is not probable that there will be an adverse outcome against the group. Therefore, no provision is made in respect of this matter as at 31 December 2022.

In March 2022, a claim was filed before the Urgent Matters Court in Algeria against the group and one other defendant claiming US$40m in relation to a court hold received by the group in 2019 which related to a customer of the group. In April 2022, the Court dismissed the claim against the group and this judgment was upheld on appeal in July 2022. A further appeal was filed by the plaintiffs before the Court of Cassation on 14 November 2022 where the case is currently pending. The potential undiscounted amount of the total payments that the group could be required to make, if there was an adverse decision related to the lawsuit, is estimated to be approximately US$40m plus interest and costs. Management believes that, based on the information available to it, it is not probable that there will be an adverse outcome against the group. Therefore, no provision is made in respect of this matter as at 31 December 2022.

36 Related party transactions

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

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

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

Related parties of the group include the parent, fellow subsidiaries, associates, joint ventures, post-employment benefit plans for HSBC employees, Key Management Personnel as defined by IAS 24 'Related Party Disclosures', close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close family members. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Bank Middle East Limited and the group and includes members of the Board of Directors of HSBC Bank Middle East Limited.

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

Key Management Personnel

The emoluments of a number of the Key Management Personnel are paid by other HSBC Group companies who make no recharge to the group. The Directors are also Directors of a number of other HSBC Group companies and it is not possible to make a reasonable apportionment of their emoluments in respect of each of the companies. Accordingly, no emoluments in respect of the Directors paid by other HSBC Group companies and applicable to the group has been included in the following disclosure.

Transactions, arrangements and agreements including Key Management Personnel

Compensation of Key Management Personnel

	2022	2021
	US$000	US$000
Remuneration (wages and bonus)	5,049	3,639
Post-employment benefits	102	67
Share-based payments	1,902	1,671
Year ended 31 Dec	**7,053**	5,377

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

Transactions and balances during the year with Key Management Personnel

	2022		2021	
	Highest amounts outstanding during year	**Balance at 31 Dec**	Highest amounts outstanding during year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Key Management Personnel[1]				
Deposits	**2,488**	**2,141**	—	—
Credit cards	**277**	**277**	73	73

1 *Includes Key Management Personnel, close family members of Key Management Personnel and entities that are controlled or jointly controlled by Key Management Personnel or their close family members.*

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

Transactions with other related parties

Associates

Transactions and balances during the year with associates

	2022		2021	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Amounts due to associates	**1,436**	**1,436**	1,226	1,226

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

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

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

	2022		2021	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Assets				
Other assets	**611**	**64**	1,413	189
Liabilities				
Other liabilities	**8,987**	**1,297**	14,532	1,962

	For the year ended 31 Dec 2022	For the year ended 31 Dec 2021
	US$000	US$000
Income statement		
Fee income	**174**	98
Other operating income	**33**	51
General and administrative expenses	**3,293**	6,229

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

	2022		2021	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Assets				
Derivatives	**1,761,060**	**1,513,844**	1,437,042	777,568
Loans and advances to banks (including reverse repos)	**2,928,850**	**2,928,850**	2,406,343	2,296,785
Other assets	**513,320**	**88,810**	860,553	128,539
Liabilities				
Trading liabilities	**437,884**	**285,691**	437,884	437,884
Deposits by banks	**4,517,087**	**3,416,400**	3,482,758	3,468,634
Derivatives	**1,465,036**	**1,195,212**	1,529,271	855,305
Subordinated amounts due	**475,000**	**475,000**	950,000	475,000
Other liabilities	**312,586**	**68,023**	664,266	62,911
Off-balance sheet				
Guarantees	**4,269,901**	**4,269,901**	4,104,781	3,988,589
Documentary credit and short-term trade-related transactions	**222,657**	**102,210**	265,950	133,902

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

	For the year ended 31 Dec 2022	For the year ended 31 Dec 2021
	US$000	US$000
Income Statement		
Interest income	**17,827**	2,588
Interest expense	**119,713**	43,038
Fee income	**55,332**	60,042
Fee expense	**22,222**	16,247
Other operating income	**52,235**	44,583
General and administrative expenses	**345,701**	290,744

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

Transactions between HSBC Bank Middle East Limited and its subsidiaries

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

	2022		2021	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	US$000	US$000	US$000	US$000
Assets				
Loans and advances to customers	**2,777**	**1,678**	2,211	2,084
Liabilities				
Customer accounts	**27,786**	**5,617**	47,602	26,523

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

37 Events after the balance sheet date

These accounts were approved by the Board of Directors on 21 February 2023 and authorised for issue.

Additional information

This section includes information that is required to be disclosed as part of our regulatory reporting obligations or that is relevant to a complete understanding of the group's *Annual Report and Accounts 2022* and is provided in accordance with certain best practice disclosure principles. In particular, it provides further information on the group's current top and emerging risks, liquidity and funding ratios, and capital requirements and structure. It also includes information about how we do business. The information in this section is not audited.

Top and emerging risks

Our current top and emerging risks are as follows:

Externally driven

Geopolitical and Macroeconomic risks

The Russia-Ukraine war has had far-reaching geopolitical and economic implications. HSBC, including the group, is monitoring the direct and indirect impacts of the war, and continues to respond to the extensive sanctions and trade restrictions that have been imposed. Heightened geopolitical tensions, alongside other factors, have also disrupted supply chains globally. Inflation, rising interest rates, and slower economic activity may prompt a global recession that would affect our credit portfolio. While the majority of the group's GCC markets are benefiting from improved financials due to the rise in Energy prices, energy importers across the region face twin shocks from higher energy and commodity prices. The macroeconomic challenges and second order impacts from geopolitical events remain uncertain and may lead to credit losses on specific exposures, which may not be fully captured in ECL estimates. To help mitigate this risk, model outputs and management adjustments are closely monitored and independently reviewed at country level for reliability and appropriateness.

Environmental, social and governance ('ESG') risks

The group is subject to financial and non-financial risks associated with ESG-related matters. Our current areas of focus are climate risk, greenwashing risk and sustainability of our supply chain. These can impact us both directly and indirectly through our business activities and relationships. We continue to develop our approach and deepen our understanding of the drivers of climate risk. A dedicated Climate Risk Oversight Forum is responsible for shaping and overseeing our approach and providing support in managing climate risk. Our climate risk programme continues to support the development of our climate risk management capabilities across four key pillars: governance and risk appetite, risk management, stress testing and scenario analysis, and disclosures. We are also enhancing our approach to greenwashing risk management across products, client and firm channels. Group has published updated policies for Energy, Thermal Coal and Third Party Suppliers which set out our sustainability priorities.

Financial Crime risk environment

The financial crime threats we face have continued to evolve, often in tandem with broader geopolitical, socioeconomic and technological shifts across our markets. A number of Middle East countries have recently been or will be subject in the near future to a mutual evaluation review by the Financial Action Task Force ("FATF"). HSBC is monitoring the direct and indirect impacts of the Russia-Ukraine war on the markets, and using its sanctions compliance capabilities to respond to the new sanctions regulations, noting the challenges that arise in implementing the complex and novel aspects of certain of the sanctions. We are strengthening and investing in our fraud and surveillance controls, to introduce next generation capabilities to protect both customers and the Group.

Evolving regulatory environment risk

The group keeps abreast of the emerging regulatory compliance and conduct agenda, which currently includes, but is not limited to: ESG matters; operational resilience; how digital and technology changes, including payments, are impacting financial institutions; how we are ensuring good customer outcomes, including addressing customer vulnerabilities; regulatory reporting; and employee compliance. We monitor regulatory developments closely and engage with regulators to help ensure new regulatory requirements are implemented effectively and in a timely way.

Cyber threat and unauthorised access to systems

Together with other organisations, we continue to operate in an increasingly hostile cyber threat environment. This requires ongoing investment in business and technical controls to defend against these threats, including potential unauthorised access to customer accounts, attacks on our systems, and attacks on our third-party suppliers. We continue to monitor ongoing geopolitical events and changes to the threat landscape. We operate a continuous improvement programme to protect our technology operations, and to counter a fast evolving cyber threat environment.

Digitisation and technological advance risk

Developments in technology and changes in regulations have enabled new entrants to the banking industry and new products and services offered by competitors. This challenges us to continue to innovate to take advantage of new digital capabilities to best serve our customers, and adapt our products to attract and retain customers and employee talent.

Internally driven

IT systems infrastructure, resilience and digitisation

The group is committed to investing in the reliability and resilience of our IT systems supporting critical processes. We continue to invest in transforming how software solutions are developed, delivered and maintained. We concentrate on improving system resilience and service continuity testing. We continue to ensure security is built into our software development life cycle and improve our testing processes and tools. We continue to upgrade many of our IT systems, simplify our service provision and replace older IT infrastructure and applications. We are executing on planned initiatives to drive digital adoption and reduce manual transactions and are increasing our investment in technology to drive improved customer experience and operational efficiency.

Data risk

We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. We need to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data. Through our global data management framework, we proactively monitor the quality, availability and security of data that supports our customers and internal processes. We protect customer data via our data privacy framework, which establishes practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations. We have made improvements to our data policies and are implementing an updated control framework to enhance the end-to-end management of data risk. We educate our employees on data risk and data management and have delivered global mandatory training on the importance of protecting data and managing data appropriately.

Risks arising from the receipt of services from third parties

The group uses third parties to provide a range of goods and services. It is critical that we ensure we have appropriate risk management policies, processes and practices over the selection, governance and oversight of third parties and their supply chain, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations. We have enhanced our control framework for external supplier arrangements to ensure the risks associated with third-party arrangements are understood and managed effectively by our global businesses, global functions and regions. We have applied the same control standards to intra-group arrangements as we have for external third-party arrangements to ensure we are managing them effectively. We are implementing the changes required by the new global third-party risk policy to comply with new regulations as defined by our regulators.

Change execution risk

The group's success in delivering our strategic priorities and continuing to address regulatory change and other top and emerging risks is dependent on the effective and safe delivery of change across the Bank. We continue to work to strengthen our change management practices to deliver sustainable change. We have continued our increased investment in strategic change to support the delivery of our strategic priorities and regulatory commitments. This requires change to be executed safely and efficiently. Change execution risk was added to the Group’s risk taxonomy and control library in 2022, to ensure that the risk is well defined, managed, reported and overseen in the same way as HSBC’s other material risks.

Model Risk

The group uses models in both financial and non-financial contexts, as well as in a range of business applications such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Assessing model performance is a continuous undertaking. Models can need redevelopment as market conditions change. Significant increases in global inflation and interest rates have impacted the reliability and accuracy of both credit and market risk models. The Model Risk Management team, including the Model Risk Steward aims to provide strong and effective review and challenge of any future redevelopment of these models. We updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management.

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

The group's success in delivering our strategic priorities and managing the regulatory environment proactively depends on the development and retention of our leadership and high-performing employees while managing increasing workforce nationalization requirements for banks driven by local authorities in the GCC. A very competitive employment market will continue to test our ability to attract and retain talent. Changed working arrangements, local Covid-19 restrictions and health concerns during the pandemic have also impacted on employee mental health and well-being. We will continue to invest in recruitment and retention of local nationals. Our Future Skills curriculum helps provide critical skills that will enable employees and HSBC to be successful in the future. We continue to develop succession plans for key management roles, with actions agreed and reviewed on a regular basis by the Board.

Liquidity and Funding Ratios

As at 31 December 2022, HSBC Bank Middle East was above regulatory and internal minimum levels for the LCR and NSFR metrics.

Liquidity coverage ratio (‘LCR’)

The LCR metric is designed to promote the short-term resilience of a bank’s liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission (‘EC’) Delegated Regulation 2015/61.

Delegated Act (‘DA’) LCR

	2022	2021
	%	%
HSBC Bank Middle East Limited	260	295

The group additionally computes and reports a DFSA-basis LCR, which differs from the DA LCR primarily with respect to the haircuts applied to liquid securities under DA issued by Gulf Cooperation Council (‘GCC’) sovereign issuers and outflow percentages applied for off-balance sheet items and retail deposits.

DFSA LCR

	2022	2021
	%	%
HSBC Bank Middle East Limited	267	299

Net stable funding ratio ('NSFR')

The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. The group calculates NSFR in line with Basel Committee on Banking Supervision's publication number 295 (BCBS295).

NSFR-295

	2022	2021
	%	%
HSBC Bank Middle East Limited	157	155

The DFSA implementation of NSFR was effective from June 2018. It differs from the Group NSFR with respect to weightings applied for off-balance sheet items, retail deposits and in the calculation for derivatives.

DFSA NSFR

	2022	2021
	%	%
HSBC Bank Middle East Limited	148	156

Components of Net Stable Funding Ratio at 31 December 2022

		Unweighted value by residual maturity				
In currency amount (US$000)		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted values
ASF (available stable funds) Item						
1	**Capital**	–	–	–	5,979,432	5,979,432
2	Regulatory Capital[1]	–	–	–	5,979,432	5,979,432
3	Other capital	–	–	–	–	–
4	**Retail deposits/PSIAs and deposits/PSIAs from small business customers:**	–	14,423,238	–	–	12,980,914
5	Stable Deposits/PSIAs	–	–	–	–	–
6	Less stable deposits/PSIAs	–	14,423,238	–	–	12,980,914
7	**Wholesale funding:**	–	19,006,298	1,194,362	5,090,002	12,883,435
8	Operational deposits/operational accounts		7,306,599	–	–	3,653,300
9	Other wholesale funding		11,699,699	1,194,362	5,090,002	9,230,135
10	**Liabilities with matching interdependent assets**	–	–	–	–	–
11	**Other liabilities:**	–	605,556	3,017	23,347	24,855
12	NSFR derivative liabilities and net liabilities for Shari'a compliant hedging contracts	–	–	–	–	–
13	All other liabilities and equity not included in the above categories	–	605,556	3,017	23,347	24,855
14	**Total ASF**	–	34,035,092	1,197,379	11,092,781	31,868,636
RSF (Required stable funds) Item						
15	**Total NSFR high-quality liquid assets ('HQLA')**	–	6,267,290	755,337	4,104,992	309,701
16	**Deposits/PSIAs held at other financial institutions for operational purposes**	–	–	–	–	–
17	**Performing loans and securities (including Shari'a compliant securities):**	–	14,399,560	4,046,663	15,001,375	17,570,797
18	Performing loans to financial institutions secured by Level 1 HQLA	–	1,199,302	17,549	732,877	861,582
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	6,282,700	389,779	2,912,433	4,049,727
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, Central Banks and PSEs,	–	6,618,550	3,546,511	9,230,312	11,043,739
21	*– of which: with a risk weight of less than or equal to 50%*	–	*331,017*	*905,594*	*4,317,292*	*3,424,545*
22	Performing residential mortgages,	–	63,486	66,737	1,976,891	1,350,090
23	*– of which: with a risk weight of less than or equal to 50%*	–	*63,486*	*66,737*	*1,976,891*	*1,350,090*
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	235,522	26,087	148,862	265,659
25	**Assets with matching interdependent liabilities**	–	–	–	–	–
26	**Other Assets**	–	183,870	–	1,915,599	1,964,708
27	Physical traded commodities, including gold	–	–	–	–	–
28	Assets posted as initial margin for derivative contracts/Shari'a compliant hedging contracts and contributions to default funds of CCPs	–	–	–	–	–
29	NSFR derivative assets	–	–	–	131,655	131,655
30	NSFR derivative liabilities before deduction of variation margin posted	–	–	–	349,439	349,439
31	All other assets not included in the above categories	–	183,870	–	1,434,505	1,483,614
32	**Off-balance sheet items**	–	37,031,931	–	–	1,724,032
33	**Total RSF**	–	57,882,651	4,802,000	21,021,966	21,569,238
34	**Net Stable Funding Ratio (%)**					148

1 Capital reported under NSFR does not include the deductions accounted in regulatory capital used for capital adequacy ratio.

Components of Net Stable Funding Ratio at 31 December 2021 (continued)

In currency amount (US$000)		Unweighted value by residual maturity No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted values
ASF (available stable funds) Item						
1	Capital	—	—	—	5,860,815	5,860,815
2	Regulatory Capital	—	—	—	5,860,815	5,860,815
3	Other capital	—	—	—	—	—
4	Retail deposits/PSIAs and deposits/PSIAs from small business customers:	—	13,326,268	—	—	11,993,642
5	Stable Deposits/PSIAs	—	—	—	—	—
6	Less stable deposits/PSIAs	—	13,326,268	—	—	11,993,642
7	Wholesale funding:	—	17,949,331	1,085,178	5,373,879	12,093,622
8	Operational deposits/operational accounts		5,534,937	—	—	2,767,468
9	Other wholesale funding		12,414,394	1,085,178	5,373,879	9,326,154
10	Liabilities with matching interdependent assets	—	—	—	—	—
11	Other liabilities:	—	1,838,283	3,020	20,926	22,437
12	NSFR derivative liabilities and net liabilities for Shari'a compliant hedging contracts	—	—	—	—	—
13	All other liabilities and equity not included in the above categories	—	1,838,283	3,020	20,926	22,437
14	Total ASF	—	33,113,882	1,088,198	11,255,620	29,970,516
RSF (Required stable funds) Item						
15	Total NSFR high-quality liquid assets ('HQLA')	—	11,024,832	1,467,614	2,770,849	388,612
16	Deposits/PSIAs held at other financial institutions for operational purposes	—	—	—	—	—
17	Performing loans and securities (including Shari'a compliant securities):	—	11,195,805	3,636,641	13,340,063	15,747,528
18	Performing loans to financial institutions secured by Level 1 HQLA	—	1,151,206	—	—	115,121
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	5,475,222	774,738	2,374,450	3,583,102
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, Central Banks and PSEs,	—	4,468,270	2,779,407	9,084,269	10,695,999
21	*– of which: with a risk weight of less than or equal to 50%*	—	*476,184*	*161,297*	*3,247,342*	*2,408,723*
22	Performing residential mortgages,	—	81,515	76,462	1,695,639	1,181,153
23	*– of which: with a risk weight of less than or equal to 50%*	—	*81,515*	*76,462*	*1,695,639*	*1,181,153*
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	—	19,592	6,034	185,705	172,153
25	Assets with matching interdependent liabilities	—	—	—	—	—
26	Other Assets	—	1,594,068	6,157	624,552	1,402,586
27	Physical traded commodities, including gold	—	—	—	—	—
28	Assets posted as initial margin for derivative contracts/Shari'a compliant hedging contracts and contributions to default funds of CCPs	—	—	—	—	—
29	NSFR derivative assets	—	—	—	62,915	62,915
30	NSFR derivative liabilities before deduction of variation margin posted	—	—	—	202,879	202,879
31	All other assets not included in the above categories	—	1,594,068	6,157	358,758	1,136,792
32	Off-balance sheet items	—	35,955,433	—	—	1,709,061
33	Total RSF	—	59,770,138	5,110,412	16,735,464	19,247,787
34	Net Stable Funding Ratio (%)					156

Capital requirement

The DFSA's capital requirements are prescribed in the DFSA Prudential – Investment, Insurance Intermediation and Banking Module ('PIB'). In accordance with the PIB:

1. the capital requirement for an authorised firm is calculated, subject to (2), as the higher of:
   a. the applicable Base Capital Requirement as set out in the PIB; or
   b. its Risk Capital Requirement plus applicable Capital Buffer Requirements.
2. where the authorised firm has an Individual Capital Requirement ('ICR') imposed on it then the Capital Requirement is its ICR plus Risk Capital Requirement plus applicable Capital Buffer Requirements.

An authorised firm must calculate its Risk Capital Requirement as the sum of the following:

- the Credit Risk Capital Requirement;
- the Market Risk Capital Requirement;
- the Operational Risk Capital Requirement; and
- the Displaced Commercial Risk Capital Requirement, where applicable.

Further, the bank is subject to a Capital Conservation Buffer of 2.5% of Risk Weighted Assets and must constitute only CET1 Capital.

The PIB requires an authorised firm to:

- appropriately apply a risk-weight to all on-balance sheet assets and off-balance sheet exposures for capital adequacy purposes. A risk-weight is based on a Credit Quality Grade aligned with the likelihood of counterparty default;
- calculate the Credit Risk Capital Requirement for its on-balance sheet assets and off-balance sheet exposures; and
- reduce the Credit Risk Capital Requirement for its on-balance sheet assets and off-balance sheet exposures where the exposure is covered fully or partly by some form of eligible Credit Risk mitigant.

The DFSA has granted approval to the bank to use HSBC Group internal models for the purposes of calculating Market Risk Requirements.

The bank uses the Standardised Approach for the calculation of Operational Risk Capital Requirement.

The bank's regulatory capital is divided into two tiers:

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

In response to the Covid-19 pandemic, DFSA in its letter to the bank dated 25 June 2020, decided to extend and refresh its approach to IFRS-9 transitional arrangements by introducing a prudential filter to smoothen the impact of Covid-19 related ECLs on banks' capital resources. The bank in response to DFSA letter, starting 30 June 2020 elected to apply transitional arrangement for a 5-years transition period using dynamic approach as follows:

- Compare Stage 1 and Stage 2 ECL provisions at the respective reporting date with the ECL provisions as at 31 December 2019.
- Add back 100% of the increased ECLs to its Common Equity Tier 1 ('CET1') capital in the 2020 and 2021 Financial Years. This add back will then be phased out on a straight line basis over the subsequent years i.e. 2022-2024.

At 31 December 2022, no prudential filter was applied as the Stage 1 and Stage 2 ECL provisions were lower compared to ECL provisions as at 31 December 2019.

Capital structure at 31 December (solo basis)

	2022	2021
	US$000	US$000
Composition of regulatory capital		
Common Equity Tier 1 capital[1]	**4,290,078**	4,906,654
Additional Tier 1 capital	**742,500**	–
Total Tier 1 capital	**5,032,578**	4,906,654
Tier 2 capital	**746,927**	791,912
Total regulatory capital	**5,779,505**	5,698,566
Risk-weighted assets		
Credit and counterparty risk	**25,126,741**	24,957,290
Market risk	**2,505,341**	4,075,576
Operational risk	**2,984,363**	2,917,008
	30,616,445	31,949,874
Capital ratios		
Common Equity Tier 1 ratio (%)	**14.01**	15.36
Tier 1 ratio (%)	**16.44**	15.36
Capital adequacy ratio (%)	**18.88**	17.84
Leverage ratio (%)	**6.99**	6.89

1 *Adjustments to/deductions from CET1 Capital.*

	2022	2021
	US$000	US$000
Other Intangible Assets	**200,859**	154,091
Deferred tax assets	**–**	5,374
Reserves	**7,621**	4,648

Environmental, social and governance ('ESG') review

Our ESG review sets out our approach to taking care of our environment, customers, employees and governance. It also explains how we aim to achieve our purpose and deliver our strategy in a way that is sustainable and how we build strong relationships with all of our stakeholders.

ENVIRONMENTAL

We are accelerating our solutions to the climate crisis and supporting the transition of industries to a net zero future, moving to net zero ourselves, as we help our customers do so too.

Transition to net zero

Our approach to the transition

One of the Group's strategic pillars is to support the transition to a net zero global economy. The Group's ambition is to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels.

The transition to net zero is one of the biggest challenges for our generation. Success will require governments, customers and finance providers to work together. The Group's global footprint means that many of its clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that the Group's transition will be challenging but is an opportunity to make an impact.

The Group has committed to publish its own bank-wide net zero transition plan in 2023. This plan will bring together the Group's climate strategy, science-based targets, and how it plans to embed this into the processes, policies, governance and capabilities. It will outline, in one place, not only the Group's commitments, targets and approach to net zero across the sectors and markets served, but how Group is transforming the organisation to embed net zero and finance the transition. The Group's approach to nature and enabling a just and resilient transition will also be incorporated into the Net Zero Transition plan.

The Group recognises that to achieve its climate ambition it needs to be transparent on the opportunities, challenges, related risks and progress it makes. To deliver on the ambition requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources and skills, and develop its business management process to integrate climate impacts. Until systems, processes, controls and governance are enhanced, certain aspects of the Group's reporting will rely on manual sourcing and categorisation of data. In 2023, the Group will continue to review its approach to disclosures. Reporting will need to evolve to keep pace with market developments.

Supporting our customers through transition

We understand that financial institutions have a critical role to play in achieving the transition to a net zero global economy. The most significant contribution we can make is by mobilising finance to support our portfolio of customers in their transition to decarbonise.

On the basis of the Group's commitment to align our ambition with the Paris Agreement, the Group aims to provide and facilitate between US$750bn and US$1tn in sustainable finance and investment by 2030 to support customers in their transition to lower carbon emissions and a more sustainable future.

Sustainable Finance

The group provides lending for specific sustainable and transition finance activities. Products include project finance (e.g. financing of renewable infrastructure projects), as well as green, social and sustainability linked loans. Our cumulative financing is almost US$4.7bn at the end of 2022, as compared to US$2.9bn in 2021.

In addition, key highlights in 2022 included landmark sustainability-linked loans the group helped structure for Etihad Airways, a $30m 5yESG KPI linked Swap for the Metito Group in Qatar and a $200m ESG KPI linked 2y Repo for Gulf International Bank in Bahrain.

We helped Etihad Airways raise US$1.2bn with the first sustainability-linked loan in the global aviation industry. We held joint ESG structuring and coordinator roles, as well as being joint book runner and mandated lead arranger.

HSBC also has successfully offered a guarantee to a logistics company for fuel supply and related services to the UN peacekeeping missions in Africa; as well as issuing a performance bond issuance towards construction of an 800MW Solar Power Plant.

For our retail banking customers, in 2021 the group introduced a range of Sustainable Finance lending products including personal loans, providing local interest rates in the UAE for solar panels to be retrofitted on to residential properties. The group also offer local rates on our vehicle loans for Electric and Hybrid Vehicles to encourage customers to reduce their driving emissions. Further, we have partnered with Sustainable City to give residents preferential rates on their sustainable housing development and we are looking to enhance this initiative by partnering with other developers in the UAE. With this range of products available, we have seen increase in our Sustainable Finance lending balances during 2022. Aside from lending, we have partnered with MasterCard's Priceless Planet Coalition to help restore the UAE's mangrove forests, customers can now donate their credit card reward points to plant and maintain mangroves in the UAE, a vital part of the coastal ecosystem for wildlife as well as helping to sequester carbon. Additionally, we now plant a tree for every Personal Loan issued in the UAE and have planted more than 4,500 trees as part of this initiative.

The group provides advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social and sustainable bonds and sukuk, transition bonds and sukuk, finance advisory mandates (including those covering debt and equity capital markets). Our cumulative facilitation is almost US$1.5bn at the end of 2022, increasing from US$1.2bn at the end of 2021.

Our net zero policies

In 2022, Group reviewed and updated their financing and investment policies critical to achieving our net zero ambition. In December, Group published an updated energy policy, covering the oil and gas, power and utilities and hydrogen sectors. The policy seeks to balance three related objectives: driving down global greenhouse gas emissions; enabling an orderly transition that builds resilience in the longer term; and supporting a just and affordable transition. In December, Group also updated our thermal coal phase-out policy, and committed to not providing new finance or advisory services specifically for new metallurgical coal mines. Our updated energy and thermal coal phase-out policies were drafted in consultation with leading independent scientific and international bodies and investors.

Our approach to our own operations

Part of our ambition to be a net zero bank is to achieve net zero carbon emissions in our operations and supply chain by 2030 or sooner.

Our energy consumption

HSBC has committed to reducing energy consumption by 50% by 2030, against the 2019 baseline. Through energy efficiency measures and portfolio optimization, the group's* energy consumption was reduced by 16% in 2022 compared to 2019 (our baseline year). In addition, the group's total carbon emissions from energy in 2022 were 8,298 tonnes, comprising a reduction of 52% compared to 2019. We have made progress in our transition to renewable energy with solar PV panels installed in our flagship Jumeirah branch.

* *For the group countries which are included in our HSBC Group ESG reporting (Bahrain, Kuwait, Qatar and UAE).*

Business travel

The group's travel-related CO_2 emissions have reduced by 8% in 2022 against the 2019 baseline. As international travel gradually resumes, we have continued our efforts to reduce air travel through budget, policy and education, taking into consideration the carbon emission impact, and adopting lower carbon options where online meetings are not appropriate. For our business fleet, we continue to pursue the reduction of environmental impacts associated with the vehicles we use in our markets and promote the use of electric vehicles wherever possible. Our focus in 2022 has been on reducing company car fleet size and ensuring that the new vehicles we order are fully electric or hybrid wherever possible.

Engaging with our supply chain

Engaging with our suppliers remains a crucial part of our strategy. In 2022, we formalized our supply chain sustainability strategy through updating our Supplier Code of Conduct and developing our sustainable procurement procedures. The new procedure sets out the minimum requirements and pertinent operational information needed to ensure HSBC's sustainability objectives related to climate change, the environment, human rights and diversity and inclusion are addressed in the way that we operate and conduct business with suppliers. We are also now incorporating carbon emissions related questions in our vendor selection process for new supplier contracts to ensure that sustainability is a key consideration in our commercial decisions.

Our approach to climate risk

Our approach to sustainability policies

The Group's sustainability risk policies cover agricultural commodities, chemicals, defence, energy, forestry, mining and metals, UNESCO World Heritage Sites and Ramsar-designated wetlands. These policies define our appetite for business in these sectors and seek to encourage customers to meet good international standards of practice. Where we identify activities that could cause material negative impacts, we will only provide finance if we can confirm customers are managing these risks responsibly. Our sustainability policies continue to be aligned with our approach to climate risk, as well as our net zero commitments.

At the heart of our net zero plan is an aim to align our financed emissions – emissions produced by our portfolio of customers – to the Paris Agreement goal of net zero by 2050 or sooner. The most significant contribution we can make is to support our customers' transition to lowering carbon through transition financing, which is financial support that helps heavy-emitting companies take action to become more environmentally sustainable over time.

HSBC's Climate Statement in March 2022 committed us to review HSBC's sustainability-related policies and align these with our Net Zero by 2050 ambition and related 2030 financed emissions targets. As part of this, in December 2022 we published our updated Energy Policy as covered in previous section.

Managing risk for our stakeholders

We see managing climate risk as an opportunity to create value for our customers, our shareholders, our people and the communities we operate in. To achieve this, we continue to enhance our risk appetite and the supporting policies and controls to manage the financial and non-financial risks in our banking portfolios and to help identify opportunities to support our customers in managing their own climate risks. We manage climate risk across all our businesses in line with our Group-wide risk management framework.

SOCIAL

As part of HSBC Group, we aim to play an active role in opening up a world of opportunity for our customers, colleagues and communities as we bring the benefits of connectivity and global economy to more people around the world.

Customers

Customer satisfaction and feedback

This year we have further enhanced our ability to listen to our customers, by expanding the scope of Net Promoter System ('NPS') in the key market of the UAE. We have provided greater focus on measuring our key journeys, through the launch and rollout of Journey NPS ('jNPS') surveys. We continue to benchmark our performance using Strategic NPS ('sNPS') against our peers, with a ranking of joint 2nd in WPB at full year 2022.

The UAE Customer Experience plan is aligned with the Group, to deliver better experiences through enhanced measurement, end-to-end journey ownership, a focus on driving a customer obsessed culture and simplifying our processes via 'Live Labs'.

In 2022, aligned with our 'bank in our customers' pocket' strategy, we focused on five key areas of digitally growing our mobile customers: adding new wealth capabilities to the app, offering our customers a global wallet supported by a multi-currency virtual and physical debit card, the ability to convert credit to cash, adding currencies to global money transfers and improving our customer experience. As on outcome, we have observed a 25% growth on our mobile active base since September 2021.

We launched important features like Cash Instalment Plan, Mobile Equities, Global Money Card and Servicing features that also continuously made User Interface changes to improve customer experience.

Employees

We aspire to open up a world of opportunity for our colleagues and build an inspiring, dynamic culture where the best want to work.

We value difference and we continue to build an inclusive workforce that is representative of the communities we serve. The group consists of 3,283 full-time equivalent employees in five markets representing 90 nationalities as at 31 December 2022.

Future of work

The Covid-19 pandemic has accelerated the future of work by enabling us to adapt more hybrid (time split between office and remote locations) working practices. The shift is helping our people achieve a better work life balance whilst keeping our customers at the heart of everything we do. HSBC's Future of Work ('FOW') Programme takes what we have learnt and enhances flexible ways of working that also helps contribute towards productivity, engagement and well-being.

To maintain the momentum, we regularly encourage hybrid initiatives, including e-learning resources, and continuous dialogue between our people leaders and their teams.

Inclusion

Our purpose, 'Opening up a world of opportunity', explains why we exist as an organisation and is the foundation of our diversity and inclusion strategy. Promoting diversity and fostering inclusion contributes to our 'energise for growth' priority. By valuing difference, we can make use of the unique expertise, capabilities, breadth and perspectives of our colleagues to the benefit of our customers. We continue efforts to build more gender-balanced teams. Female employees represent almost 44% of total employees and 33% of senior leaders. (Senior leadership is classified as 0 to 3 in our global career band structure). Initiatives activated in 2020 to support employees with disabilities and to strengthen the ethnic and cultural diversity of our teams continue to drive enhancements and progress toward our inclusion aspirations.

Wellbeing

Employee wellbeing continues to remain a key priority with focus on a mental, physical, social and financial well-being. In 2022, HSBC was awarded the Parent Friendly Label by the Abu Dhabi Early Childhood Authority and the Best Wellbeing Programme from the Future Workplace Awards. Key wellbeing initiatives this year have included; a refresh of our flexible working policy, enhanced mental health coverage under the medical insurance for Gulf countries, free onsite health check-ups and breast cancer screening in branch locations in the UAE, and the launch of a women's health programme focusing on the menopause in the Gulf countries.

Learning and skills development

Developing the skills of our colleagues is critical to energising our organisation and building a dynamic, inclusive culture. Our Future Skills programme helps prepare our people for the changing skills required in the future workplace. We have a growing range of tools and resources to help colleagues take ownership of their development and career. This includes the HSBC University, our My HSBC Career portal which offers career development resources and Degreed, our learning experience platform that is a one stop shop for all learning content and enables employees to own and drive skill development and personal growth. Degreed adoption for the group as of 31 December 2022 is 75% with over 2,600 users registered on the platform.

In 2022, a significant focus was to build capability on sustainability for all employees across the region and we provided foundational and sector specific knowledge to support our Net Zero and Transition Plans. Foundation modules of the Delivering Net Zero curriculum were assigned to all employees and we achieved a completion rate of 93% as of December 2022. Additionally, people management capability has been a key priority with approximately 300 people managers assigned our People Management development program.

Employee engagement

Understanding the experience of employees is central to our efforts. Through our employee Snapshot survey, we capture our colleagues' views on topics such as hybrid working and wellbeing. In 2022, 2,453 colleagues responded to the survey, a participation rate of 72%. The employee engagement score, our headline measure of how employees feel about HSBC was at 74%, similar to 2021.

At times our colleagues may need to speak up about behaviours in the workplace. We encourage colleagues to speak to their line manager in the first instance, but recognise that at times people may not feel comfortable speaking up through the usual channels. HSBC Confidential is our global whistleblowing channel, allowing our colleagues past and present to raise concerns confidentially and, if preferred, anonymously (subject to local laws).

Communities

Supporting Communities

Community Investment projects

We have been present in the Middle East for more than 75 years. We have a long standing commitment to our internal and external stakeholders that we deliver on through our philanthropic activities. In 2022, our charitable giving for the group totalled US$3.75m. We focus on the areas of Future Skills (for young adults and entrepreneurs) and in unlocking next-generation climate solutions to accelerate the transition to net zero.

We offer paid volunteering days, and encourage our people to give time, skills and knowledge to causes within their communities. In 2022, our colleagues gave over 476 hours to community activities during work time, and more than 881 hours in their own personal time, for HSBC programmes.

Future Skills and Entrepreneurship

The Group's Future Skills and Entrepreneurship agenda supported 17 projects during 2022. One example of these is the two gold awards winning program, C3 Social Impact Accelerator powered by HSBC, that reached more than 2,500 impact entrepreneurs, and empowered 140 from across the region. This unique accelerator programme supports impact entrepreneurs with innovative concepts that help widen their impact on society and the environment, at the same time enhancing their business growth and financial performance.

Additionally, in collaboration with the Youth Arab Council and the Ministry of Youth in the UAE, we are developing a full, open source, curriculum for teaching Sustainability Core Skills. The aim is to integrate sustainability concepts into the core curriculum of higher education across the Middle East region. This is the first such programme in the region and HSBC is the leading the way of changing the narrative on sustainability education, capability building of students (and educators across public universities) in addition to facilitating youth engagement in green policy development.

Financial Inclusion

In 2022, the group finalised the delivery of the Saving for Good initiative in partnership with Injaz Al-Arab. The programme aimed to equip economically vulnerable workers in Bahrain, Kuwait, Qatar and the UAE with financial literacy skills. These individuals and their families are often highly vulnerable to social upheaval and economic shocks such as Covid-19 pandemic. Injaz trained 55 group employee volunteers to deliver a series of six two-hour workshops under the programme, reached a total of 1,020 migrant workers, and to open a total of 184 savings accounts.

Climate

The Group's Climate Solutions Partnership ('CSP') is a five-year US$100m philanthropic initiative that aims to identify and remove barriers to scale for climate change solutions. The partnership aims to scale up climate innovation ventures, nature-based solutions ('NbS') and help to transition the energy sector towards renewables in Asia.

In the UAE, we are collaborating with Emirates Nature-WWF, the Environment Agency in Abu Dhabi and the International Centre for Biosaline Agriculture on a project that aims to provide a science-based innovative approach to strengthen synergies between coastal ecosystems, including mangroves, seagrasses, saltmarshes' conservation and restoration with climate action. It is a multi-year commitment of US$4.2m exploring commercial and investable opportunities based on nature, climate mitigation and benefits for people's resilience (with a focus on food security and innovation, recreation & ecotourism). In March 2022, the Umm al Quwain Municipality became an additional implementing partner of the project as part of the launch of the Sustainable Blue Economy Strategy for the Emirate. During a high-level meet at COP27 in Sharm El-Sheikh, a collaboration agreement was signed between the UAE Ministry of Climate Change and Environment ('MoCCAE'), the Environment Agency in Abu Dhabi and Emirates Nature-WWF within the framework of this project. The collaboration showcases the UAE's commitment to scaling up NbS as a key pillar to tackling climate change and nature loss.

The group continued to be involved in the climate innovation component of the CSP, by selecting the best innovative ventures in the region and supporting them using WWF's purpose-built platform, Impactio. In 2022, we have supported in three challenges focused on decarbonisation of the built environment and fashion supply chains.

Finally, during COP27, Emirates Nature-WWF launched the first UAE tailored alliance for climate action, UAE Alliance for Climate Action, where HSBC UAE is the first founding donor (and only one at the time of the launch). This is a flagship project for COP28 and beyond, as it will be a key driver of the Climate-Responsible Companies Pledge launched MoCCAE by providing capacity-building and tools to implement and achieve net-zero targets in collaboration with the Alliances for Climate Action, globally led by WWF.

GOVERNANCE

We remain committed to high standards of governance and we recognise our contribution to building healthy and sustainable societies.

How ESG is governed

We act on our responsibility to run our business in a way that upholds high standards of corporate governance. We are committed to working with our regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing our industry. In our endeavour to restore trust in our industry, we aim to act with courageous integrity and learn from past events to help prevent their recurrence. We meet our responsibilities to society, including through being transparent in our approach to paying taxes. We also seek to ensure we respect global standards on human rights in our workplace and our supply chains through screening and remediation, and continually work to improve our compliance management capabilities. We acknowledge that increasing financial inclusion is a continuing effort, and we are carrying out a number of initiatives to increase access to financial services.

Our respect for human rights

In the UAE, we trained more than 100 front-line staff in human rights issues, and incorporated a questionnaire into our annual credit reviews for customers in seven sectors considered higher risk as there is limited data available to assess the level of human rights risk related to our customers. Building on the client due diligence project initiated in the UAE in 2018, in 2022, the country was selected as one of the four markets included in the newly launched pilots with a focus on Commercial Banking clients, aimed at developing additional approaches to due diligence on human rights that could compliment existing arrangements.

Conduct: Our Product responsibilities

Our conduct approach guides us to do the right thing and to focus on the impact we have on our customers and the financial markets in which we operate.

We are committed to providing customers with products and services that offer a fair exchange of value and meet their financial needs. Good conduct at HSBC means we service our customers ongoing needs and will put it right if we make a mistake.

We have policies and procedures to help deliver fair outcomes for our customers, and to maintain orderly and transparent financial markets. Conduct principles are embedded into the way we develop, distribute, structure and execute products and services.

Safeguarding data

We are committed to protecting and respecting the data we hold and process, in accordance with the laws and regulations of the geographies in which we operate. Our Group-wide privacy policy and principles aim to provide a consistent global approach to managing data privacy risk, and must be applied by all of our global businesses and functions.

We conduct regular employee training and awareness sessions on data privacy and security issues throughout the year, including global mandatory training for all our colleagues, along with additional training sessions, where required, to keep abreast of new developments in this space.

We provide transparency to our customers and stakeholders on how we collect, use and manage their personal data, and their associated rights. Where relevant, we work closely with third parties to help ensure adequate protections are provided, in line with our data privacy policy and as required under data privacy law.

We continue to implement industry practices for data privacy and security. Our privacy teams work closely with our data protection officers and industry bodies to drive the design, implementation and monitoring of privacy solutions. We conduct regular reviews and privacy risk assessments, and continue to develop solutions to strengthen our data privacy controls. We continue to enhance our internal data privacy tools to improve accountability for data privacy. We have procedures to articulate the actions needed to deal with data privacy considerations. These include notifying regulators, customers or other data subjects, as required under applicable privacy laws and regulations, in the event of a reportable incident occurring.

Our approach with our suppliers

The Group has an ethical and environmental code of conduct for suppliers of goods and services, which all contracted suppliers are required to comply with. Our supplier management principles and code of conduct are available at www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers.

Financial crime risk management

We have continued our efforts to combat financial crime risks and reduce their impact on our organisation and the markets we operate and serve. These financial crime risks include money laundering, terrorist and proliferation financing, tax evasion, bribery and corruption, sanctions and fraud. As part of this work, we have made progress on several key initiatives, enabling us to manage and mitigate these risks more effectively, and further our pioneering work in financial crime risk management across the financial services industry. We have embedded a strong financial crime risk management framework across all global businesses and all countries and territories in which we operate.

We operate a zero tolerance approach to bribery and corruption, and consider such activity to be unethical and contrary to good governance. Our global anti-bribery and corruption policy sets out the key principles and minimum control requirements that enable us to mitigate bribery and corruption risk and comply with all laws and regulations in the countries where we operate.

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ALGERIA

Oriental Business Park branch
Oran branch

BAHRAIN

Seef – Main Branch
Adliya Branch

KUWAIT

Kuwait City – Sharq Area

QATAR

Doha – Airport Road (Main Branch)
Doha – City Centre
Doha – Lusail
Doha - Msheireb

UNITED ARAB EMIRATES

Abu Dhabi – Old Airport Road
Dubai – Dubai Festival City Mall
Dubai – Bur Dubai
Dubai – Jumeirah
Jebel Ali – Free Trade Zone
Fujairah – Hamad Bin Abdulla St
Ras Al Khaimah – Al Dhait
Sharjah – King Faisal Road
4 Customer Service Units and 2 Management Offices

Principal Subsidiary Companies

HSBC Middle East Securities LLC
HSBC Middle East Asset Company LLC
HSBC Insurance Services (Lebanon) S.A.L.
HSBC Bank Middle East Representative Office Morocco S.A.R.L.

Associated Companies

MENA Infrastructure Fund (GP) Limited

Special Connections With These Members Of The HSBC Group

HSBC Bank Oman S.A.O.G.
HSBC Bank Egypt S.A.E.
HSBC Securities (Egypt) S.A.E.
HSBC Electronic Data Service Delivery (Egypt) S.A.E.
HSBC Saudi Arabia
The Saudi British Bank
HSBC Private Bank (Suisse) SA (DIFC Branch)
HSBC Middle East Leasing Partnership
HSBC Bank A.S.

HSBC BANK MIDDLE EAST LIMITED

Incorporated in the Dubai International Financial Centre number – 2199

Regulated by the Dubai Financial Services Authority.

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