HSBC Bank Middle East Limited

Interim Financial Statements 2022

HSBC

Contents

Presentation of information

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

In accordance with IAS 34 the Interim Report is intended to provide an update on the *Annual Report and Accounts 2021* and therefore focuses on events during the first six months of 2022 rather than duplicating information previously reported.

Condensed financial statements

Consolidated income statement

		Half-year to	
		30 Jun	30 Jun
		2022	2021
	Notes	**US$000**	US$000
Net interest income		**352,667**	322,107
– interest income		**411,768**	373,937
– interest expense		**(59,101)**	(51,830)
Net fee income	*3*	**238,164**	214,802
– fee income		**294,158**	253,127
– fee expense		**(55,994)**	(38,325)
Net income from financial instruments held for trading or managed on a fair value basis		**195,291**	140,031
Changes in fair value of long-term debt and related derivatives		**(4,499)**	(3,286)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**990**	(2,592)
Gains less losses from financial investments		**(4,748)**	1,438
Dividend income		**58**	58
Other operating income, net		**22,588**	28,952
Net operating income before change in expected credit losses and other credit impairment charges		**800,511**	701,510
Change in expected credit losses and other credit impairment charges	*9*	**63,244**	108,295
Net operating income		**863,755**	809,805
Employee compensation and benefits		**(261,862)**	(273,496)
General and administrative expenses		**(192,469)**	(179,253)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(16,088)**	(17,549)
Amortisation and impairment of intangible assets		**(19,369)**	(10,585)
Total operating expenses		**(489,788)**	(480,883)
Operating profit		**373,967**	328,922
Share of loss in associates		**(163)**	(137)
Profit before tax		**373,804**	328,785
Tax expense		**(78,312)**	(49,681)
Profit for the period		**295,492**	279,104
Attributable to:			
– shareholders of the parent company		**295,492**	279,104
– non-controlling interests		**—**	—
Profit for the period		**295,492**	279,104

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2022	30 Jun 2021
	US$000	US$000
Profit for the period	**295,492**	279,104
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value though other comprehensive income/(expense)	**(119,132)**	(4,767)
– fair value gains/(losses)	**(135,088)**	(5,995)
– fair value gains/(losses) transferred to the income statement on disposal	**(4,680)**	1,438
– expected credit losses recognised in income statement	**(80)**	(1,057)
– income taxes	**20,716**	847
Cash flow hedges	**(3,513)**	(15,303)
– fair value gains/(losses)	**(3,803)**	(17,045)
– income taxes	**290**	1,742
Exchange differences	**(11,982)**	(1,191)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit liability	**(3,947)**	(1,961)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**11,316**	(2,136)
Equity instruments designated at fair value through other comprehensive income – fair value gains/(losses)	**93**	(2,674)
– fair value (losses)/gains	**93**	(2,674)
Other comprehensive income/(expense) for the period, net of tax	**(127,165)**	(28,032)
Total comprehensive income/(expense) for the period	**168,327**	251,072
Attributable to:		
– shareholders of the parent company	**168,327**	251,072
– non-controlling interests	**—**	—
Total comprehensive income/(expense) for the period	**168,327**	251,072

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

Consolidated statement of financial position

		At	
		30 Jun 2022	31 Dec 2021
	Notes	**US$000**	US$000
Assets			
Cash and balances at central banks		**1,345,645**	848,471
Items in the course of collection from other banks		**211,877**	53,900
Trading assets	*10*	**2,094,747**	1,106,182
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	*10*	**44,994**	25,315
Derivatives	*10*	**1,569,001**	1,070,156
Loans and advances to banks		**7,374,141**	7,807,302
Loans and advances to customers	*9*	**20,658,334**	18,623,781
Reverse repurchase agreements – non-trading		**4,673,296**	4,900,749
Financial investments	*10*	**9,293,666**	10,928,961
Prepayments, accrued income and other assets		**1,322,432**	1,051,496
Current tax assets		**1,576**	10
Interests in associates		**2,495**	2,659
Intangible assets		**172,450**	154,091
Deferred tax assets		**179,472**	198,649
Total assets		**48,944,126**	46,771,722
Liabilities and equity			
Liabilities			
Deposits by banks		**4,622,873**	4,575,102
Customer accounts		**28,966,399**	27,010,549
Repurchase agreements – non-trading		**1,985,967**	2,366,542
Items in the course of transmission to other banks		**962,628**	670,767
Trading liabilities	*10*	**447,953**	618,099
Financial liabilities designated at fair value	*7,10*	**1,555,102**	1,563,998
Derivatives	*10*	**1,484,183**	1,014,392
Debt securities in issue	*8*	**1,543,426**	1,874,830
Accruals, deferred income and other liabilities		**1,804,063**	1,630,882
Current tax liabilities		**78,177**	82,944
Provisions		**72,166**	100,046
Total liabilities		**43,522,937**	41,508,151
Equity			
Called up share capital		**931,055**	931,055
Share premium account		**61,346**	61,346
Other equity instruments	*11*	**967,500**	225,000
Other reserves		**(316,484)**	(181,815)
Retained earnings		**3,777,772**	4,227,985
Total shareholders' equity		**5,421,189**	5,263,571
Non-controlling interests		**—**	—
Total equity		**5,421,189**	5,263,571
Total liabilities and equity		**48,944,126**	46,771,722

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

Neslihan Erkazanci

Chief Financial Officer / Director

Consolidated statement of cash flows

	Half-year to	
	30 Jun 2022	30 Jun 2021
	US$000	US$000
Profit before tax	**373,804**	328,785
Cash flows from operating activities		
Adjustments for:		
Net gain from investing activities	**4,826**	(1,482)
Share of (profit)/loss in associates	**163**	137
Other non-cash items included in profit before tax	**2,214**	(44,798)
Change in operating assets	**(4,916,213)**	1,600,234
Change in operating liabilities	**1,179,452**	(854,693)
Elimination of exchange differences[1]	**(2,337)**	(262)
Tax paid	**(43,169)**	(48,962)
Net cash generated from/(used) in operating activities	**(3,401,260)**	978,959
Cash flows from investing activities		
Purchase of financial investments	**(7,544,771)**	(10,347,360)
Proceeds from the sale and maturity of financial investments	**8,890,937**	10,307,004
Net cash flows from the purchase and sale of property, plant and equipment	**(4,392)**	(1,018)
Net investment in intangible assets	**(37,701)**	(27,707)
Net cash generated from/(used) in investing activities	**1,304,073**	(69,081)
Cash flows from financing activities		
Issuance of non-equity preference shares	**750,000**	—
Dividends paid to shareholders of the parent company	**(750,830)**	—
Net cash generated from/(used) in financing activities	**(830)**	—
Net increase in cash and cash equivalents	**(2,098,017)**	909,878
Cash and cash equivalents at 1 Jan	**9,378,794**	7,702,023
Exchange differences in respect of cash and cash equivalents	**629**	(8)
Cash and cash equivalents at 30 Jun	**7,281,406**	8,611,893

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

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

Consolidated statement of changes in equity

				Other reserves						
	Called up share capital and share premium US$000	**Other equity instru-ments[1] US$000**	**Retained earnings US$000**	**Financial assets at FVOCI reserves US$000**	**Cash flow hedging reserve US$000**	**Foreign exchange reserve US$000**	**Merger and other reserves[2] US$000**	**Total share-holders' equity US$000**	**Non-controlling interests US$000**	**Total equity 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 for the period	**—**		**295,492**	**—**	**—**	**—**	**—**	**295,492**	**—**	**295,492**
Other comprehensive income/ (expense) (net of tax)	**—**		**7,613**	**(119,094)**	**(3,513)**	**(12,171)**	**—**	**(127,165)**	**—**	**(127,165)**
– debt instruments at fair value through other comprehensive income	**—**		**—**	**(119,132)**	**—**	**—**	**—**	**(119,132)**	**—**	**(119,132)**
– equity instruments designated at fair value through other comprehensive income	**—**		**—**	**93**	**—**	**—**	**—**	**93**	**—**	**93**
– cash flow hedges	**—**		**—**	**—**	**(3,513)**	**—**	**—**	**(3,513)**	**—**	**(3,513)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**—**		**11,316**	**—**	**—**	**—**	**—**	**11,316**	**—**	**11,316**
– remeasurement of defined benefit liability	**—**		**(3,947)**	**—**	**—**	**—**	**—**	**(3,947)**	**—**	**(3,947)**
– exchange differences	**—**		**244**	**(55)**	**—**	**(12,171)**	**—**	**(11,982)**	**—**	**(11,982)**
Total comprehensive income/ (expense) for the period	**—**		**303,105**	**(119,094)**	**(3,513)**	**(12,171)**	**—**	**168,327**	**—**	**168,327**
New Issuance	**—**	**750,000**	**—**	**—**	**—**	**—**	**—**	**750,000**	**—**	**750,000**
Dividends	**—**	**—**	**(750,830)**	**—**	**—**	**—**	**—**	**(750,830)**	**—**	**(750,830)**
Other movements	**—**	**(7,500)**	**(2,488)**	**14**	**—**	**95**	**—**	**(9,879)**	**—**	**(9,879)**
At 30 Jun 2022	**992,401**	**967,500**	**3,777,772**	**(140,269)**	**(283)**	**(160,611)**	**(15,321)**	**5,421,189**	**—**	**5,421,189**
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 for the period	—	—	279,104	—	—	—	—	279,104	—	279,104
Other comprehensive income/ (expense) (net of tax)	—	—	(3,343)	(7,466)	(15,303)	(1,920)	—	(28,032)	—	(28,032)
– debt instruments at fair value through other comprehensive income	—	—	—	(4,767)	—	—	—	(4,767)	—	(4,767)
– equity instruments designated at fair value through other comprehensive income	—	—	—	(2,674)	—	—	—	(2,674)	—	(2,674)
– cash flow hedges	—	—	—	—	(15,303)	—	—	(15,303)	—	(15,303)
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	(2,136)	—	—	—	—	(2,136)	—	(2,136)
– remeasurement of defined benefit liability	—	—	(1,961)	—	—	—	—	(1,961)	—	(1,961)
– exchange differences	—	—	754	(25)	—	(1,920)	—	(1,191)	—	(1,191)
Total comprehensive income/ (expense) for the period	—	—	275,761	(7,466)	(15,303)	(1,920)	—	251,072	—	251,072
New issuance	—	—	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	—	—	—
Other movements	—	—	(1,280)	—	—	—	—	(1,280)	—	(1,280)
At 30 Jun 2021	992,401	—	4,297,373	7,644	8,989	(145,766)	(15,321)	5,145,320	4,418	5,149,738

1 *The accounting treatment for undated preference shares was reassessed during 2021 and, accordingly, these instruments were reclassified from debt securities in issue to other equity instruments.*
2 *The merger reserve pertains to the acquisition of HBME Algeria in 2009.*
3 *The accompanying notes on pages 7 to 25 form an integral part of these financial statements.*

Notes on the Condensed 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 1, Gate Village Building 8, 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

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of the group have been prepared in accordance with IAS 34 'Interim Financial Reporting' ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as adopted by the UK. Therefore they include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the group since the end of 2021. These interim condensed consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2021*.

At 30 June 2022, there were no unendorsed standards effective for the half-year to 30 June 2022 affecting these interim condensed consolidated financial statements. For the periods presented, there was no difference between IFRSs adopted by the UK, IFRSs as endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

Standards applied during the half-year to 30 June 2022

There were no new standards or amendments to standards that had an effect on these interim condensed financial statements.

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of amortised cost and fair value through other comprehensive income ('FVOCI') financial assets, the valuation of financial instruments, recognition of deferred tax assets, impairment of non-financial assets and provisions. There was no change in the current period to the critical accounting estimates and judgements applied in 2021, which are stated in the *Annual Report and Accounts 2021*.

(c) Composition of the group

There were no changes in the composition of the group in the half-year to 30 June 2022.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020, and December 2021. It has been adopted in its entirety for use in the UK. The EU has also adopted IFRS 17 in its entirety except for the December 2021 amendments which are pending adoption.

The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 will be effective from 1 January 2023. The group 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.

(e) Accounting policies

The accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described in the *Annual Report and Accounts 2021*, as are the methods of computation.

(f) 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.

3 Net fee income

	At	
	30 Jun 2022	30 Jun 2021
	US$000	US$000
Cards	**76,315**	60,018
Credit facilities	**17,209**	19,074
Account services	**19,927**	15,465
Unit trust	**12,034**	9,651
Performance/Tender bonds	**29,513**	30,781
Global custody	**24,410**	20,444
Remittances	**18,309**	16,733
Imports/exports	**30,314**	29,484
Insurance agency commission	**4,579**	4,906
Corporate/project finance	**7,455**	3,663
Others	**54,093**	42,908
Total Fee Income	**294,158**	253,127
Fee Expense	**(55,994)**	(38,325)
Net Fee Income	**238,164**	214,802

4 Dividends

Dividends to shareholders 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 current year:				
– special dividend	**0.8055**	**750,000**	—	—
Total	**0.8055**	**750,000**	—	—

5 Segment analysis

Our global businesses

The group provides a comprehensive range of banking and related financial services to our customers in our three global businesses. The products and services offered to customers are organised by these 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. The group also provides wealth management services, including insurance and 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), commercial insurance and investments. CMB also offers customers access to products and services offered by other global businesses, such as GB and MSS, which include foreign exchange products, raising capital on debt and equity markets and advisory services.
- Global Banking (‘GB’) provides tailored financial solutions to major government, corporate and institutional clients worldwide. The client-focused business line delivers a full range of banking capabilities including structured financing, advisory, capital markets, liquidity and cash management services.
- Markets and Securities Services (‘MSS’) enables our corporate and institutional clients to access financial markets and liquidity, unlock investment opportunities, manage risk and transact seamlessly. Bringing together financing solutions; sales, trading and distribution across multiple asset classes; research; clearing and settlement; global and direct custody; and asset servicing.
- Corporate Centre comprises interests in associates and central stewardship costs that support our businesses.

Profit/(loss) for the period

Half-year to 30 Jun	Wealth and Personal Banking US$000	Commercial Banking US$000	Global Banking US$000	Markets and Securities Services US$000	Corporate Centre* US$000	Total US$000
	2022					
Net interest income	136,020	102,350	96,275	22,069	(4,047)	352,667
Net fee income/(expense)	60,108	69,519	62,603	46,034	(100)	238,164
Net income from financial instruments held for trading or managed on a fair value basis	25,193	21,743	(8,992)	159,522	(2,175)	195,291
Other income	980	1,886	10,660	(12,581)	13,444	14,389
Net operating income before change in expected credit losses and other credit impairment charges	222,301	195,498	160,546	215,044	7,122	800,511
Change in expected credit losses and other credit impairment	(1,619)	38,110	22,746	4,007	—	63,244
Net operating income	220,682	233,608	183,292	219,051	7,122	863,755
Total operating expenses	(178,256)	(114,966)	(89,041)	(59,974)	(47,551)	(489,788)
Operating profit/(loss)	42,426	118,642	94,251	159,077	(40,429)	373,967
Share of profit/(loss) in associates	—	—	—		(163)	(163)
Profit/(loss) before tax	42,426	118,642	94,251	159,077	(40,592)	373,804
By geographical region						
U.A.E[1]	37,790	71,668	66,111	117,633	(39,256)	253,946
Qatar	997	28,285	17,871	25,201	(731)	71,623
Rest of Middle East	3,639	18,689	10,269	16,243	(605)	48,235
Profit/(loss) before tax	42,426	118,642	94,251	159,077	(40,592)	373,804

* *Inter-segment eliminations are booked under Corporate Centre.*

Profit/(loss) for the period

Half-year to 30 Jun	Retail Banking and Wealth Management US$000	Commercial Banking US$000	Global Banking US$000	Markets and Securities Services US$000	Corporate Centre US$000	Total US$000
	2021					
Net interest income	119,991	83,385	95,837	23,949	(1,055)	322,107
Net fee income/(expense)	56,252	68,543	52,734	37,360	(87)	214,802
Net income from financial instruments held for trading or managed on a fair value basis	21,482	16,790	3,240	99,066	(547)	140,031
Other income	4,592	11,693	(5,222)	1,112	12,395	24,570
Net operating income before change in expected credit losses and other credit impairment charges	202,317	180,411	146,589	161,487	10,706	701,510
Change in expected credit losses and other credit impairment	4,173	13,459	90,616	47	—	108,295
Net operating income	206,490	193,870	237,205	161,534	10,706	809,805
Total operating expenses	(171,388)	(117,945)	(85,984)	(58,990)	(46,576)	(480,883)
Operating profit/(loss)	35,102	75,925	151,221	102,544	(35,870)	328,922
Share of profit in associates	—	—	—	—	(137)	(137)
Profit/(loss) before tax	35,102	75,925	151,221	102,544	(36,007)	328,785
By geographical region						
U.A.E[1]	34,370	23,060	117,141	78,355	(31,113)	221,813
Qatar	(2,214)	26,133	21,866	14,264	(322)	59,727
Rest of Middle East	2,946	26,732	12,214	9,925	(4,572)	47,245
Profit/(loss) before tax	35,102	75,925	151,221	102,544	(36,007)	328,785

1 *Includes UAE branch and Head office of the group.*

Balance sheet information

At 30 Jun	Wealth and Personal Banking US$000	Commercial Banking US$000	Global Banking US$000	Markets and Securities Services US$000	Corporate Centre US$000	Total US$000
	2022					
Loans and advances to customers (net)	3,770,944	6,214,086	10,662,280	11,024	—	20,658,334
Interest in associates	—	—	—	—	2,495	2,495
Total assets	10,434,826	9,472,287	17,667,366	9,093,664	2,275,983	48,944,126
Customer accounts	14,167,709	6,033,454	7,787,816	977,420	—	28,966,399
Total liabilities	15,727,640	7,649,546	11,880,409	5,779,686	2,485,656	43,522,937
At 31 Dec	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

6 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and non-trading repurchase and reverse repurchase agreements are explained in the *Annual Report and Accounts 2021.*

Fair values of financial instruments not carried at fair value

	At 30 Jun 2022		At 31 Dec 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	US$000	**US$000**	US$000	US$000
Assets				
Loans and advances to banks	**7,374,141**	**7,394,747**	7,807,302	7,916,583
Loans and advances to customers	**20,658,334**	**20,658,452**	18,623,781	18,599,743
Reverse repurchase agreements – non-trading	**4,673,296**	**4,664,430**	4,900,749	4,898,648
Financial Investments – at amortised cost	**1,096,920**	**1,093,262**	—	—
Liabilities				
Deposits by banks	**4,622,873**	**4,652,217**	4,575,102	4,662,479
Customer accounts	**28,966,399**	**28,911,352**	27,010,549	27,014,401
Repurchase agreements – non-trading	**1,985,967**	**1,985,424**	2,366,542	2,365,875
Debt securities in issue	**1,543,426**	**1,548,742**	1,874,830	1,879,945

7 Financial liabilities designated at fair value

	At	
	30 Jun 2022	31 Dec 2021
	US$000	US$000
Deposits by bank and customer accounts	**596,820**	489,368
Debt securities in issue (Note 8)	**958,282**	1,074,630
Total	**1,555,102**	1,563,998

At 30 June 2022, the accumulated amount of change in fair value attributable to changes in credit risk was a gain of US$2.5m (31 December 2021: US$8.8m loss).

8 Debt securities in issue

	At	
	30 Jun 2022	31 Dec 2021
	Carrying amount	Carrying amount
	US$000	US$000
Medium-term notes	**2,026,708**	2,474,460
Non-equity preference shares	**475,000**	475,000
Total debt securities in issue	**2,501,708**	2,949,460
Included within:		
– financial liabilities designated at fair value (Note 7)	**(958,282)**	(1,074,630)
Total	**1,543,426**	1,874,830

Movement in medium-term notes at amortised cost

	At	
	30 Jun 2022	31 Dec 2021
	US$000	US$000
Balance as at 1 Jan	**1,399,830**	1,050,594
New issues	**15,000**	1,170,765
Repayments	**(346,511)**	(821,529)
Other movements	**107**	—
Closing balance	**1,068,426**	1,399,830

9 Risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all risk management information and disclosures required in the annual financial statements, they should be read in conjunction with the *Annual Report and Accounts 2021.*

There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2021.*

Areas of special interest

During the first half of 2022, we actively managed the second order risks related to the Russia-Ukraine war alongside the continued risks associated with Covid-19 and its effect on the global economy. Further, 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.

Geopolitical and macroeconomic risk

The Russia-Ukraine conflict has far reaching geopolitical and economic implications. The group is monitoring the direct and indirect impacts of the conflict, and continues to respond to new sanctions regulations, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain of these sanctions.

Global commodity markets have been significantly impacted, leading to supply chain disruptions and increased prices for both energy and non-energy products, which in turn have had global inflationary impacts but have largely benefited the oil producing markets our group is operating in. There has also been increased financial market volatility.

The group will continue to consider potential regulatory, reputational and market risks arising from the evolving geopolitical landscape and is taking appropriate measures to mitigate the risks.

The impact of the pandemic and the second order impacts from the geo-political and macroeconomic events – such as logistics and supply chain issues, inflation and higher interest rates - remains 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 the group and branch level for reliability and appropriateness.

Central Bank of UAE Targeted Economic Support Scheme ('TESS')

Under the TESS, the Central Bank of UAE has facilitated the provision of temporary relief from the payments of principal and/or interest on outstanding loans for all affected private sector corporates, SMEs and individuals with specific conditions ('Customer deferrals'). Similar schemes have been initiated by regulators in other countries in which the group operates. The TESS program expired on 30 June 2022.

The UAE Banking Regulators have issued Joint Guidance on the treatment of expected credit loss provisions in the context of the Covid-19 crisis (the 'Joint Guidance'). Based on the Joint Guidance, the customers that have received payment deferrals within and outside the TESS have been grouped as follows:

i. those that are temporarily and mildly impacted by Covid-19 ('Group 1'). Group 1 clients are not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the Covid-19 crisis.

ii. those that are significantly impacted by Covid-19 ('Group 2'). Group 2 clients are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

Gross loans and advances and deferral amounts to customers by industry sector – UAE

	Loans and advances to customers				ECL on loans and advances to customers		Customer deferral			
							Group 1		Group 2	
	Total gross loans	Deferral amount[1]	% of gross loans[2]	Exposure at default	Total ECL[3]	*of which: ECL adjustments[4]*	Deferral amount	ECL[5]	Deferral amount	ECL[5]
At 30 Jun 2022	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	***US$000***	**US$000**	**US$000**	**US$000**	**US$000**
Personal										
– residential mortgages	**2,079,309**	**—**	**—**	**—**	**(15,397)**	***1,861***	**—**	**—**	**—**	**—**
– other personal	**1,350,385**	**—**	**—**	**—**	**(83,043)**	***—***	**—**	**—**	**—**	**—**
	3,429,694	**—**	**—**	**—**	**(98,440)**	***1,861***	**—**	**—**	**—**	**—**
Corporate and commercial										
– commercial, industrial and international trade	**6,577,797**	**76,042**	**1.16**	**241,693**	**(201,843)**	***2,100***	**26,500**	**117**	**49,542**	**633**
– commercial real estate and other property-related	**1,769,053**	**41,654**	**2.35**	**161,889**	**(271,135)**	***24,800***	**7,550**	**10**	**34,104**	**15,111**
– government	**1,521,471**	**—**	**—**	**—**	**(434)**	***—***	**—**	**—**	**—**	**—**
– other commercial	**1,890,112**	**—**	**—**	**—**	**(149,985)**	***3,030***	**—**	**—**	**—**	**—**
	11,758,433	**117,696**	**1.00**	**403,582**	**(623,397)**	***29,930***	**34,050**	**127**	**83,646**	**15,744**
Financial										
– non-bank financial institutions	**214,322**	**—**	**—**	**—**	**(137)**	***—***	**—**	**—**	**—**	**—**
Total	**15,402,449**	**117,696**	**0.76**	**403,582**	**(721,974)**	***31,791***	**34,050**	**127**	**83,646**	**15,744**

Gross loans and advances and deferral amounts to customers by industry sector – UAE (continued)

	Loans and advances to customers				ECL on loans and advances to customers		Customer deferral			
							Group 1		Group 2	
	Total gross loans	Deferral amount[1]	% of gross loans[2]	Exposure at default	Total ECL[3]	*of which: ECL adjustments[4]*	Deferral amount	ECL[5]	Deferral amount	ECL[5]
At 31 Dec 2021	US$000	US$000	US$000	US$000	US$000	*US$000*	US$000	US$000	US$000	US$000
Personal										
– residential mortgages	1,923,815	—	—	—	(18,049)	*833*	—	—	—	—
– other personal	1,231,812	4	—	55	(91,584)	*11,640*	4	—	—	—
	3,155,627	4	—	55	(109,633)	*12,473*	4	—	—	—
Corporate and commercial										
– commercial, industrial and international trade	5,893,852	93,026	1.58	256,798	(292,368)	*37,861*	32,500	95	60,526	2,469
– commercial real estate and other property-related	1,864,228	53,029	2.84	182,768	(347,327)	*41,500*	33,220	236	19,809	13,436
– government	1,701,121	—	—	—	(529)	—	—	—	—	—
– other commercial	1,989,368	—	—	—	(165,816)	—	—	—	—	—
	11,448,569	146,055	1.28	439,566	(806,040)	*79,361*	65,720	331	80,335	15,905
Financial										
– non-bank financial institutions	189,334	—	—	—	(198)	—	—	—	—	—
Total	14,793,530	146,059	0.99	439,621	(915,871)	*91,834*	65,724	331	80,335	15,905

1 This is the deferral amount provided to customers in the UAE in accordance with the Joint Guidance. The total amount of gross loans subject to deferral were US$419m (31 December 2021: US$455m), representing an Exposure at Default of US$404m (31 December 2021: US$440m). As of 30 June 2022, HBME UAE has repaid all the TESS facility to the UAE Central Bank (31 December 2021: Nil) out of the total TESS facility of US$0.12bn provided by the UAE Central Bank.
2 This is calculated as a percentage of deferral amount to total gross loans.
3 Total ECL includes stage 1 and 2 ECL of US$91m (31 December 2021: US$141m) and stage 3 ECL of US$632m (31 December 2021: US$775m).
4 These are expert credit adjustments made to the model output and have been necessary to reflect management's best estimate of ECL in accordance with IFRS 9 and the Joint Guidance.
5 The ECL amount relates to the deferred instalments and has been computed on a pro-rata basis based on the ECL on the total outstanding facility amount.

Change in gross loans and advances and ECL to customers by industry sector – UAE

	Gross carrying value			Expected credit losses		
	30 Jun 2022	31 Dec 2021	**%**	**30 Jun 2022**	31 Dec 2021	**%**
At 30 Jun 2022	**US$000**	US$000	**change**	**US$000**	US$000	**change**
Personal						
– residential mortgages	**2,079,309**	1,923,815	**8.1**	**(15,397)**	(18,049)	**(14.7)**
– other personal	**1,350,385**	1,231,812	**9.6**	**(83,043)**	(91,584)	**(9.3)**
	3,429,694	3,155,627	**8.7**	**(98,440)**	(109,633)	**(10.2)**
Corporate and commercial						
– commercial, industrial and international trade	**6,577,797**	5,893,852	**11.6**	**(201,843)**	(292,368)	**(31.0)**
– commercial real estate and other property-related	**1,769,053**	1,864,228	**(5.1)**	**(271,135)**	(347,327)	**(21.9)**
– government	**1,521,471**	1,701,121	**(10.6)**	**(434)**	(529)	**(18.0)**
– other commercial	**1,890,112**	1,989,368	**(5.0)**	**(149,985)**	(165,816)	**(9.5)**
	11,758,433	11,448,569	**2.7**	**(623,397)**	(806,040)	**(22.7)**
Financial						
– non-bank financial institutions	**214,322**	189,334	**13.2**	**(137)**	(198)	**(30.8)**
Total	**15,402,449**	14,793,530	**4.1**	**(721,974)**	(915,871)	**(21.2)**
Exposure at default	**14,664,973**	13,960,540	**5.0**	**N/A**	N/A	**N/A**

Clients benefiting from deferrals – UAE

At 30 Jun 2022			Number of clients deferred	Payment deferrals US$000	Exposure US$000	Impairment Allowance US$000
Segment	**Stage**	**Group**				
Retail banking	Stage 1	Group 1	—	—	—	—
		Group 2	—	—	—	—
	Total stage 1		—	—	—	—
	Stage 2	Group 1	—	—	—	—
		Group 2	—	—	—	—
	Total stage 2		—	—	—	—
	Stage 3	Group 1	—	—	—	—
		Group 2	—	—	—	—
	Total stage 3		—	—	—	—
Total retail banking			—	—	—	—
Wholesale banking	Stage 1	Group 1	**5**	**34,050**	**73,737**	**182**
		Group 2	—	—	—	—
	Total stage 1		**5**	**34,050**	**73,737**	**182**
	Stage 2	Group 1	—			
		Group 2	**6**	**64,600**	**325,870**	**4,890**
	Total stage 2		**6**	**64,600**	**325,870**	**4,890**
	Stage 3	Group 1	—	—	—	—
		Group 2	**2**	**19,046**	**19,046**	**15,066**
	Total stage 3		**2**	**19,046**	**19,046**	**15,066**
Total wholesale banking			**13**	**117,696**	**418,653**	**20,138**

At 31 Dec 2021						
Segment	Stage	Group				
Retail banking	Stage 1	Group 1	3	4	55	1
		Group 2	—	—	—	—
	Total stage 1		3	4	55	1
	Stage 2	Group 1	—	—	—	—
		Group 2	—	—	—	—
	Total stage 2		—	—	—	—
	Stage 3	Group 1	—	—	—	—
		Group 2	—	—	—	—
	Total stage 3		—	—	—	—
Total retail banking			3	4	55	1
Wholesale banking	Stage 1	Group 1	5	42,450	89,069	157
		Group 2	—	—	—	—
	Total stage 1		5	42,450	89,069	157
	Stage 2	Group 1	3	23,270	55,947	540
		Group 2	3	50,270	279,724	5,110
	Total stage 2		6	73,540	335,671	5,650
	Stage 3	Group 1	—	—	—	—
		Group 2	5	30,065	30,065	15,235
	Total stage 3		5	30,065	30,065	15,235
Total wholesale banking			16	146,055	454,805	21,042

ECL movement during the period – UAE

	Not credit impaired		Credit impaired		
	Stage 1	Stage 2	Stage 3	POCI	Total
At 30 Jun 2022	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Personal					
ECL allowance as of start of period	**28,596**	**25,917**	**56,096**	**—**	**110,609**
– residential mortgages	**754**	**44**	**(3,450)**	**—**	**(2,652)**
– other personal	**(8,916)**	**7,150**	**(6,818)**	**—**	**(8,584)**
ECL allowance as of end of period	**20,434**	**33,111**	**45,828**	**—**	**99,373**
Corporate and commercial					
ECL allowance as of start of period	**39,947**	**65,547**	**718,491**	**1,500**	**825,485**
– Corporates	**(12,859)**	**(34,099)**	**(135,642)**	**—**	**(182,600)**
– government	**(14,260)**	**(1,072)**	**1,753**	**—**	**(13,579)**
– non-bank financial institutions	**(70)**	**—**	**—**	**—**	**(70)**
– Banks	**195**	**30**	**—**	**—**	**225**
ECL allowance as of end of period	**12,953**	**30,406**	**584,602**	**1,500**	**629,461**

ECL movement during the year – UAE (continued)

	Not credit impaired		Credit impaired		
	Stage 1	Stage 2	Stage 3	POCI	Total
At 31 Dec 2021	US$000	US$000	US$000	US$000	US$000
Personal					
ECL allowance as of start of year	23,885	93,236	84,830	—	201,951
– residential mortgages	(1,111)	(2,395)	(17,566)	—	(21,072)
– other personal	5,822	(64,924)	(11,168)	—	(70,270)
ECL allowance as of end of year	28,596	25,917	56,096	—	110,609
Corporate and commercial					
ECL allowance as of start of year	46,255	133,977	848,639	4,249	1,033,120
– Corporates	(10,146)	(59,839)	(130,148)	(2,749)	(202,882)
– government	4,342	(5,389)	—	—	(1,047)
– non-bank financial institutions	83	(2,879)	—	—	(2,796)
– Banks	(587)	(323)	—	—	(910)
ECL allowance as of end of year	39,947	65,547	718,491	1,500	825,485

ECL adjustments[1] – UAE

	Non-Covid related ECL adjustments	Covid related ECL adjustments	Total ECL adjustments
As at 30 Jun 2022	**US$000**	**US$000**	**US$000**
Retail banking loans:			
– residential mortgages	**1,861**	**—**	**1,861**
– other personal	**—**	**—**	**—**
Total retail banking loans	**1,861**	**—**	**1,861**
Wholesale banking loans:			
– Non-government obligors	**—**	**29,930**	**29,930**
Total wholesale banking loans	**—**	**29,930**	**29,930**
As at 31 Dec 2021			
Retail banking loans:			
– residential mortgages	—	833	833
– other personal	—	11,640	11,640
Total retail banking loans	—	12,473	12,473
Wholesale banking loans:			
– Non-government obligors	—	79,361	79,361
Total wholesale banking loans	—	79,361	79,361

1 *These are expert credit adjustments made to the model output and have been necessary to reflect management's best estimate of ECL in accordance with IFRS 9 and the Joint Guidance.*

Interbank Offered Rates ('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 Libor after 2021, we have been actively working to transition legacy contracts from Ibor's and meet client needs for new replacement rates. For 2022, the focus has been to transition the non-USD Libor-linked portfolio following ICE Benchmark Administration Limited's ('IBA') decision to continue to publish US dollar Libor for its most widely used settings until June 2023.

Through 2021, our Ibor transition programme ('the programme') developed IT and new near risk free replacement rate ('RFR') product capabilities, and implemented operational processes and controls to manage any heightened financial and non-financial risks whilst actively engaging with our clients to discuss options to transition their legacy contracts. The group met regulatory milestones to cease issuance of new Libor contracts for the demising benchmarks through 2021, and expects to meet regulatory timelines to complete transition of our US dollar legacy contracts by mid-2023.

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

- Regulatory compliance risk: If we neglect to act appropriately in the transition of legacy contracts we may observe an increase in client complaints resulting from a breach of duty to our clients.
- Resilience risk: We may be exposed to increased operational risks due to changes in manual and automated processes, and the transition of large volumes of contracts.
- Legal risk: We may be exposed to an increased risk of litigation as a result of Ibor transition, which may give rise to contractual, sales or other claims.
- Model risk: As a result of required changes to our models there is a risk that model output is adversely affected, leading to increased regulatory notifications or incorrect model outputs.
- Market risk: 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.

Throughout the remainder of 2022, and into 2023, we are committed to engaging with our clients and investors to complete an orderly transition of contracts that reference the remaining demising Ibors.

Financial instruments impacted by Ibor reform

Amendments to IFRSs 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.

These amendments applied from 1 January 2021 with early adoption permitted. The group adopted the amendments from 1 January 2020.

Financial instruments impacted by Ibor reform

	Financial instruments yet to transition to alternative benchmarks, by main benchmark		
	USD Libor	GBP Libor	Others
At 30 Jun 2022	**US$000**	**US$000**	**US$000**
Non-derivative financial assets			**–**
Loans and advances to customers	**5,115,716**	**–**	**–**
Other financial assets	**1,044,935**	**–**	**–**
Total non-derivative financial assets	**6,160,651**	**–**	**–**
Non-derivative financial liabilities		**–**	**–**
Financial liabilities designated at fair value			
Debt securities in issue	**1,441,547**	**–**	**–**
Other financial liabilities	**2,689,949**	**–**	**–**
Total non-derivative financial liabilities	**4,131,496**	**–**	**–**
Derivative notional contract amount			
Interest rate	**22,696,838**	**–**	**–**
Foreign exchange	**953,782**	**–**	**–**
Derivative notional contract amount	**23,650,620**	**–**	**–**
At 31 Dec 2021			
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		–	
Financial liabilities designated at fair value			
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
Foreign exchange	–	–	–
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.

Summary of credit risk

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

	At 30 Jun 2022		At 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	**21,440,202**	**(781,868)**	19,618,941	(995,160)
Loans and advances to banks at amortised cost	**7,376,371**	**(2,230)**	7,810,570	(3,268)
Other financial assets measured at amortised cost	**8,275,453**	**(4,489)**	6,494,761	(6,284)
– cash and balances at central banks	**1,345,930**	**(285)**	848,873	(402)
– items in the course of collection from other banks	**211,877**	**—**	53,900	—
– reverse repurchase agreements – non-trading	**4,673,296**	**—**	4,900,749	—
– financial investments	**1,096,945**	**(25)**	—	—
– prepayments, accrued income and other assets	**947,405**	**(4,179)**	691,239	(5,882)
Total gross carrying amount on balance sheet	**37,092,026**	**(788,587)**	33,924,272	(1,004,712)
Loans and other credit-related commitments	**8,656,762**	**(10,618)**	7,555,710	(14,167)
Financial guarantee and similar contract	**2,589,716**	**(3,174)**	2,342,657	(13,102)
Total nominal amount off balance sheet	**11,246,478**	**(13,792)**	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 FVOCI	**8,171,730**	**(1,276)**	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 30 June 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	**18,078,600**	**2,380,570**	**978,234**	**2,798**	**21,440,202**	**(37,965)**	**(67,819)**	**(674,585)**	**(1,499)**	**(781,868)**
Loans and advances to banks at amortised cost	**7,357,318**	**19,053**	**—**	**—**	**7,376,371**	**(2,219)**	**(11)**	**—**	**—**	**(2,230)**
Other financial assets measured at amortised cost	**8,156,481**	**112,026**	**6,946**	**—**	**8,275,453**	**(473)**	**(433)**	**(3,583)**	**—**	**(4,489)**
Loans and other credit-related commitments	**8,319,460**	**332,280**	**5,022**	**—**	**8,656,762**	**(2,612)**	**(7,867)**	**(139)**	**—**	**(10,618)**
Financial guarantee and similar contracts	**2,443,737**	**135,303**	**10,676**	**—**	**2,589,716**	**(1,135)**	**(2,024)**	**(15)**	**—**	**(3,174)**
At 30 Jun 2022	**44,355,596**	**2,979,232**	**1,000,878**	**2,798**	**48,338,504**	**(44,404)**	**(78,154)**	**(678,322)**	**(1,499)**	**(802,379)**
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)
Loans and other credit-related commitments	7,201,601	353,028	1,081	—	7,555,710	(7,036)	(7,044)	(87)	—	(14,167)
Financial guarantee and similar contracts	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)

Macro-economic forecast, probability weights and management overlays

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 the use of multiple economic scenarios to reflect assumptions about future economic conditions. Five scenarios are used to capture the current economic environment for H1'22 and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to the top and emerging risks.

The five scenarios comprise of a core set of three scenarios. Within this core of three scenarios, lies the central scenario which represents a baseline expectation, and two outer scenarios that reflect the upside and downside deviations from the central view. This quarter we have utilized an additional low probability, high impact downside scenario, which is severe in nature, as well as a fifth scenario to account for the stagflation risk manifest in current macroeconomic environment. 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.

For the central scenario, the group sets key economic assumptions such as GDP growth and oil price using either the average of external economist forecasts (commonly referred to as consensus forecasts) for most economies, or market prices helping to ensure that the IFRS 9 scenarios are unbiased and maximize the use of independent information. An external provider's global macro model, conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This external provider is subject to the HSBC Group's risk governance framework, with oversight by a specialist internal unit.

The upside and downside scenarios are designed to be cyclical, in that assumptions such as GDP growth usually revert back to the central scenario after the first three years for major economies. We use externally available forecast distributions to help ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks captured in the group's Top and Emerging Risks. This ensures that scenarios remain consistent with the more qualitative assessment of these risks. We project additional variable paths using the external provider's global macro model.

As at 30 June 2022, the central scenario has been assigned a weighting of 65%, the downside scenario 20% and the upside, downside 1 and additional downside 5% each, 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 (2022Q3–2027Q2)

	UAE
Probability (%)	**65**
GDP growth rate (%)	
2022: Annual average growth rate	**5.3**
2023: Annual average growth rate	**4.3**
2024: Annual average growth rate	**3.2**
5-year average	**3.3**
Oil price (US$)	
2022: Average oil price	**107.6**
2023: Average oil price	**95.7**
2024: Average oil price	**85.8**
5-year average	**88.8**
House price growth (%)	
2022: Annual average growth rate	**9.4**
2023: Annual average growth rate	**3.4**
2024: Annual average growth rate	**2.5**
5-year average	**3.5**
Inflation rate	
2022: Annual average rate	**3.2**
2023: Annual average rate	**2.3**
2024: Annual average rate	**2.2**
5-year average	**2.2**

The following table describes the probabilities assigned in the consensus upside scenario, consensus downside scenario and additional downside 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 1 scenario	Downside 2 scenario
Probability (%)	**5**	**20**	**5**	**5**
GDP growth rate (%)	**13.4 (2Q23)**	**(0.6) (2Q23)**	**(2.5) (1Q25)**	**(6.5) (4Q23)**
Oil price (US$)	**187.9 (1Q23)**	**57.4 (1Q23)**	**75.2 (4Q26)**	**71.9 (3Q26)**
House price growth (%)	**15.4 (2Q23)**	**(4.8) (4Q23)**	**(4.4) (2Q25)**	**(11.3) (1Q24)**
Inflation rate (%)	**4 (4Q23)**	**0.4 (4Q23)**	**3.7 (3Q22)**	**1.7 (2Q24)**

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') and loss given default ('LGD'). 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. PDs and LGDs are estimated for the entire term structure of each instrument.

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 economic scenarios[1]

	UAE	
	Jun 2022	Dec 2021
	US$m	US$m
Reported ECL[2]	**84**	158
Gross carrying/nominal amount[3]	**44,323**	44,767
Consensus Central scenario	**71**	122
Consensus Upside scenario	**41**	73
Consensus Downside scenario	**105**	214
Downside 1 scenario	**115**	
Downside 2 scenario	**155**	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.*

Compared with 31 December 2021, the Downside 2 ECL impact was lower, mostly driven by a combination of changes to severity and the reduction of uncertainty related to the Covid-19 pandemic and corresponding management judgemental adjustments. A modest reduction of ECL was observed in UAE as some of the sectors benefited from increased oil prices.

How economic scenarios are reflected in the retail calculation of ECL

HSBC has developed and implemented 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 scenarios[1]

	UAE						
	Gross carrying amount	Reported ECL[2]	Central scenario ECL	Upside scenario ECL	Downside scenario ECL	Downside 1 scenario ECL	Downside 2 scenario ECL
At 30 Jun 2022	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Mortgages	**2,081**	**37**	**37**	**35**	**37**	**39**	**40**
Credit cards	**427**	**41**	**34**	**20**	**67**	**36**	**70**
Other	**656**	**17**	**15**	**12**	**16**	**17**	**21**
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.

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 customer risk rating ('CRR')/probability of default ('PD') movements of the financial instruments from stage transfers. This is captured, along with other credit quality movements in the '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 30 June 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:	648,050	764	(726,065)	11,419	78,015	(12,183)	–	–	–	–
– Transfers from stage 1 to stage 2	(834,110)	8,743	834,110	(8,743)	–	–	–	–	–	–
– Transfers from stage 2 to stage 1	1,482,160	(7,979)	(1,482,160)	7,979	–	–	–	–	–	–
– Transfers to stage 3	–	–	(83,915)	14,033	83,915	(14,033)	–	–	–	–
– Transfers from stage 3	–	–	5,900	(1,850)	(5,900)	1,850	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	4,862	–	(8,940)	–	(93)	–	–	–	(4,171)
Net new and further lending/(repayments) and changes in risk parameters	3,250,081	42,575	(219,990)	27,086	(55,670)	(29,760)	(3,000)	–	2,971,421	39,901
Assets written off	–	–	–	–	(193,626)	193,626	–	–	(193,626)	193,626
Foreign exchange and others	(41,147)	27	(1,302)	16	(173)	133	–	–	(42,622)	176
Others	–	(69)	–	–	–	(1,656)	–	–	–	(1,725)
At 30 Jun 2022	**36,199,115**	**(43,931)**	**2,867,206**	**(77,721)**	**993,932**	**(674,739)**	**2,798**	**(1,499)**	**40,063,051**	**(797,890)**
ECL release/(charge) for the period		47,437		18,146		(29,853)		–	–	35,730
Recoveries	–	–	–	–	–	11,146	–	–	–	11,146
Others	–	–	–	–	–	–	–	–	–	–
Total ECL release/ (charge) for the period	–	47,437	–	18,146	–	(18,707)	–	–	–	46,876

	At 30 Jun 2022		Six months ended 30 Jun 2022
	Gross carrying/nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	40,063,051	(797,890)	46,876
Other financial assets measured at amortised cost	8,275,453	(4,489)	1,795
Other instruments not within the scope of IFRS 9	N/A	N/A	14,299
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	48,338,504	(802,379)	62,970
Debt instruments measured at FVOCI	8,171,730	(1,276)	274
Change in expected credit losses and other credit impairment charges	N/A	(803,655)	63,244

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

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	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 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
Net new and further lending/(repayments) and changes in risk parameters	(45,742)	61,446	1,566,538	49,668	(218,382)	(37,027)	(8,651)	(167)	1,293,763	73,920
Assets written off	—	—	—	—	(268,665)	268,665	(167)	167	(268,832)	268,832
Foreign exchange and others	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 on loans and advances to banks and customers including loan commitments and financial guarantees for the period ended 30 June 2021

	Non-credit impaired		Credit impaired		
	Stage 1	Stage 2	Stage 3	POCI	Total
	US$000	US$000	US$000	US$000	US$000
ECL release/(charge) for the period	52,218	24,558	15,531	(166)	92,141
Recoveries	—	—	11,533	—	11,533
Others	—	—	(3)	—	(3)
Total ECL release/(charge) for the period	52,218	24,558	27,061	(166)	103,671

	At 31 Dec 2021		Six months ended 30 Jun 2021
	Gross carrying/nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
Loans and advances to banks and customers including loan commitments and financial	37,327,878	(1,025,697)	103,671
Other financial assets measured at amortised cost	6,494,761	(6,284)	2,252
Other instruments not within the scope of IFRS 9	N/A	N/A	1,311
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	43,822,639	(1,031,981)	107,234
Debt instruments measured at FVOCI	10,904,286	(1,550)	1,061
Change in expected credit losses and other credit impairment charges	N/A	(1,033,531)	108,295

Concentration of exposure

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
	Total	As a % of total gross loans
At 30 Jun 2022	**US$000**	**%**
Personal		
– residential mortgages	**2,107,792**	**9.8**
– other personal	**1,778,591**	**8.3**
	3,886,383	**18.1**
Corporate and commercial		
– commercial, industrial and international trade	**10,204,262**	**47.6**
– commercial real estate and other property-related	**2,523,702**	**11.8**
– government	**1,816,030**	**8.5**
– other commercial	**2,792,474**	**13.0**
	17,336,468	**80.9**
Financial		
– non-bank financial institutions	**217,351**	**1.0**
Total gross loans and advances to customers	**21,440,202**	**100.0**
Impaired loans		
– as a percentage of gross loans and advances to customers %	**4.58**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers %	**3.65**	
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 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	

10 Fair values of financial instruments

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2022 are consistent with those applied in the *Annual Report and Accounts 2021.*

Financial instruments carried at fair value and bases of valuation

	At 30 Jun 2022				At 31 Dec 2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**		Quoted market price	Using observable inputs	With significant unobservable inputs	
	US$000	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000
Recurring fair value measurements								
Assets								
Trading assets	**227,936**	**1,525,220**	**341,591**	**2,094,747**	353,181	405,101	347,900	1,106,182
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**19,491**	**—**	**25,503**	**44,994**	—	—	25,315	25,315
Derivatives	**—**	**1,567,139**	**1,862**	**1,569,001**	—	1,068,997	1,159	1,070,156
Financial investments	**7,088,459**	**1,081,994**	**26,293**	**8,196,746**	8,264,716	2,638,020	26,225	10,928,961
Liabilities								
Trading liabilities	**142,803**	**305,150**	**—**	**447,953**	179,907	438,192	—	618,099
Financial liabilities designated at fair value	**—**	**1,555,102**	**—**	**1,555,102**	—	1,563,998	—	1,563,998
Derivatives	**—**	**1,478,089**	**6,094**	**1,484,183**	—	1,011,158	3,234	1,014,392

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 nil (2021: nil) transfer from Level 2 to Level 1 Financial Investments and nil (2021: nil) transfers from Level 2 to Level 3 Financial Investments.

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	**26,293**	**–**	**25,503**	**–**	**51,796**	**–**	**–**
Other derivatives	**–**	**–**	**–**	**1,862**	**1,862**	**6,094**	**6,094**
Other portfolios	**–**	**341,591**	**–**	**–**	**341,591**	–	–
At 30 Jun 2022	**26,293**	**341,591**	**25,503**	**1,862**	**395,249**	**6,094**	**6,094**
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

The basis for determining the fair value of the financial instruments in the table above is explained in the *Annual Report and Accounts 2021.*

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 losses recognised in profit or loss	**–**	**(1,870)**	**188**	**1,040**	**(1,535)**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**(1,870)**	**–**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**188**	**1,040**	**(1,535)**
Total gains recognised in other comprehensive income	**68**	**–**	**–**	**–**	**–**
– financial investments: fair value gains/(losses)	**68**	**–**	**–**	**–**	**–**
Purchases	**–**	**28,949**	**–**	**385**	**4,395**
Sales	**–**	**(33,388)**	**–**	**(722)**	**–**
Settlements	**–**	**–**	**–**	**–**	**–**
Transfers in	**–**	**–**	**–**	**–**	**–**
At 30 Jun 2022	**26,293**	**341,591**	**25,503**	**1,862**	**6,094**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2022	**–**	**(1,870)**	**188**	**1,040**	**(1,535)**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**(1,870)**	**–**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**188**	**1,040**	**(1,535)**
At 1 Jan 2021	37,719	195,055	38,813	2,578	2,720
Total gains/(losses) recognised in profit or loss	–	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)	–	–
Total losses recognised in other comprehensive income	(11,494)	–	–	–	–
– financial investments: fair value 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 30 Jun 2021	–	771	(2,592)	(286)	559
– net income from financial instruments held for trading or managed on a fair value basis	–	771	–	–	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	(2,592)	(286)	559

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 30 Jun 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, trading assets and trading liabilities[1]	1,040	(3,405)	—	—	—	(27)	—	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	188	—	—	—	1,983	(1,983)	—	—
Financial investments			117	(49)	—	—	2,598	(1,311)
Total	1,228	(3,405)	117	(49)	1,983	(2,010)	2,598	(1,311)

1 *Derivatives, trading assets and trading liabilities 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 30 Jun 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	—	—	117	(49)	—	—	2,598	(1,311)
Other derivatives	1,040	(1,535)	—	—	—	(27)	—	—
Other portfolios	188	(1,870)	—	—	1,983	(1,983)	—	—
Total	1,228	(3,405)	117	(49)	1,983	(2,010)	2,598	(1,311)

11 Other equity instruments

Additional Tier 1 Preference Shares with a nominal value of US$750m were issued during the year.

Other equity instruments include Undated and Perpetual Additional Tier 1 Preference Shares.

	At	
	30 Jun 2022	31 Dec 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)	—
	967,500	225,000

Undated preference shares

	Nominal value	Dividend basis	Mandatory redemption
	US$000	%	(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 30 Jun 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	Dividend basis	Mandatory redemption
	US$000	%	(maturity date)
Perpetual Additional Tier 1 preference shares	750,000	6.25% payable semi-annually	undated
At 30 Jun 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.*

12 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2022	31 Dec 2021
	US$000	US$000
Guarantees and other contingent liabilities		
Guarantees	**17,103,662**	17,248,568
Commitments		
Documentary credits and short-term trade-related transactions	**972,393**	510,891
Standby facilities, credit lines and other commitments to lend	**17,628,717**	17,819,455
Total	**18,601,110**	18,330,346

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

13 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 no other matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2 of the group's *Annual Report and Accounts 2021.* While the outcome of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 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, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority, which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in 2020, and consented to 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 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 completed its latest review pursuant to the FRB cease-and-desist order, which remains in place.

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

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. Currently, eight actions that include HSBC Bank Middle East Limited remain pending in federal courts in New York or the District of Columbia. The courts have granted HSBC's motions to dismiss in several of the cases, however appeals remain pending in one case, and another is also subject to appeal. The remaining actions are at a very early stage.

Other litigation

UAE 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. Two additional parties were joined to the proceedings in January 2020, and a further party joined the proceedings as an intervener following the issuance of an expert's report.

In November 2020, the Court of First Instance dismissed the case in its entirety against all defendants including the group. The plaintiff appealed the case to the Court of Appeal where the case is currently under assessment by a panel of experts who issued a report adverse to the defendants including the group, and the case is adjourned to September 2022. 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. However, any adverse judgment, if issued, would be on a joint and several liability basis with two other defendants and therefore the group's liability could be significantly less.

Algeria litigation: 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 and the plaintiff appealed. In July 2022, the appeal court dismissed the appeal. Further appellate cases remain possible in certain circumstances. Should an appeal or related claim be possible, and be filed in another court in Algeria, 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. A related case was filed against the group before the Urgent Matters Court by the same plaintiff in June 2020, which was dismissed.

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

14 Related party transactions

There were no changes in the related party transactions described in the *Annual Report and Accounts 2021* that have had a significant effect on the financial position or performance of the group in the half-year to 30 June 2022. All related party transactions that took place in the half-year to 30 June 2022 were similar in nature to those disclosed in the *Annual Report and Accounts 2021.*

15 Events after the balance sheet date

These accounts were approved by the Board of Directors on 1 August 2022 and authorised for issue.

Independent Review Report to HSBC Bank Middle East Limited

Review report on condensed consolidated interim financial information to the board of directors of HSBC Bank Middle East Limited

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of HSBC Bank Middle East Limited and its subsidiaries (the 'Group') as at 30 June 2022 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as adopted by the United Kingdom. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – 'Interim Financial Reporting' as issued by the IASB and as adopted by the United Kingdom.

PricewaterhouseCoopers Limited

Place: Dubai, United Arab Emirates

Date: 01 August 2022

Audit Principal: Tamsin King (Reference Number I009875)

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PricewaterhouseCoopers Limited is registered with the Dubai Financial Services Authority.

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Regulated by the Dubai Financial Services Authority.

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