HSBC Bank Middle East Limited

Interim Financial Statements 2023

HSBC

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Contents

Presentation of information

This document comprises the *Interim Condensed Financial Statements 2023* for HSBC Bank Middle East Limited ('the bank') and its subsidiary undertakings (together 'the group'). It contains Interim 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 2022* and therefore focuses on events during the first six months of 2023 rather than duplicating information previously reported.

Interim condensed financial statements

Consolidated income statement

	Notes	Half-year to 30 Jun 2023 US$000	30 Jun 2022 US$000
Net interest income		**763,507**	352,667
– interest income		**1,088,564**	411,768
– interest expense		**(325,057)**	(59,101)
Net fee income	3	**243,109**	238,164
– fee income		**303,812**	294,158
– fee expense		**(60,703)**	(55,994)
Net income from financial instruments held for trading or managed on a fair value basis		**212,056**	195,291
Changes in fair value of long-term debt and related derivatives		**(16,091)**	(4,499)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**654**	990
Gains less losses from financial investments		**(5,867)**	(4,748)
Other operating income		**1,035**	22,646
Net operating income before change in expected credit losses and other credit impairment charges		**1,198,403**	800,511
Change in expected credit losses and other credit impairment charges	10	**43**	63,244
Net operating income		**1,198,446**	863,755
Employee compensation and benefits		**(277,232)**	(261,862)
General and administrative expenses		**(210,368)**	(192,469)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(14,261)**	(16,088)
Amortisation and impairment of intangible assets		**(22,913)**	(19,369)
Total operating expenses		**(524,774)**	(489,788)
Operating profit		**673,672**	373,967
Share of loss in associates		**(56)**	(163)
Profit before tax		**673,616**	373,804
Tax expense		**(97,846)**	(78,312)
Profit for the period		**575,770**	295,492
Attributable to:			
– shareholder of the parent company		**575,770**	295,492
Profit for the period		**575,770**	295,492

The accompanying notes on pages 7 to 20 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2023	30 Jun 2022
	US$000	US$000
Profit for the period	**575,770**	295,492
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)	**5,738**	(119,132)
– fair value gains/(losses)	**15,312**	(135,088)
– fair value gains/(losses) transferred to the income statement on disposal	**(5,867)**	(4,680)
– expected credit losses recognised in income statement	**67**	(80)
– income taxes	**(3,774)**	20,716
Cash flow hedges	**(14,036)**	(3,513)
– fair value gains/(losses)	**(16,614)**	(3,803)
– income taxes	**2,578**	290
Exchange differences	**6,768**	(11,982)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit liability	**(4,311)**	(3,947)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(137)**	11,316
Fair value gains on equity instruments designated at fair value through other comprehensive income	**5,141**	93
Other comprehensive income/(expense) for the period, net of tax	**(837)**	(127,165)
Total comprehensive income/(expense) for the period	**574,933**	168,327
Attributable to:		
– shareholder of the parent company	**574,933**	168,327
Total comprehensive income/(expense) for the period	**574,933**	168,327

The accompanying notes on pages 7 to 20 form an integral part of these financial statements.

Consolidated statement of financial position

		At	
		30 Jun 2023	31 Dec 2022
	Notes	**US$000**	US$000
Assets			
Cash and balances at central banks		**1,254,290**	1,056,445
Items in the course of collection from other banks		**1,632,126**	75,248
Trading assets	6	**2,060,867**	1,786,013
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	6	**33,945**	42,906
Derivatives	6	**1,367,182**	1,789,977
Loans and advances to banks		**8,129,050**	9,056,676
Loans and advances to customers	10	**18,803,680**	19,761,741
Reverse repurchase agreements – non-trading		**4,962,790**	5,293,684
Financial investments	6	**11,310,403**	7,752,241
Prepayments, accrued income and other assets		**1,737,045**	1,117,453
Current tax assets		**769**	1,114
Interests in associates		**2,400**	2,457
Intangible assets		**221,651**	200,859
Deferred tax assets		**147,349**	148,890
Total assets		**51,663,547**	48,085,704
Liabilities and equity			
Liabilities			
Deposits by banks		**4,009,203**	4,543,481
Customer accounts		**31,335,339**	29,975,304
Repurchase agreements – non-trading		**2,669,374**	933,719
Items in the course of transmission to other banks		**909,141**	258,689
Trading liabilities	6	**520,359**	368,048
Financial liabilities designated at fair value	6,8	**1,200,077**	1,420,580
Derivatives	6	**1,286,566**	1,747,196
Debt securities in issue	9	**1,579,756**	1,545,420
Accruals, deferred income and other liabilities		**2,381,091**	1,723,411
Current tax liabilities		**109,417**	70,626
Provisions		**32,612**	56,654
Total liabilities		**46,032,935**	42,643,128
Equity			
Called up share capital		**931,055**	931,055
Share premium account		**61,346**	61,346
Other equity instruments		**967,500**	967,500
Other reserves		**(281,226)**	(284,473)
Retained earnings		**3,951,937**	3,767,148
Total equity		**5,630,612**	5,442,576
Total liabilities and equity		**51,663,547**	48,085,704

The accompanying notes on pages 7 to 20 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

	Half-year to	
	30 Jun 2023	30 Jun 2022
	US$000	US$000
Profit before tax	**673,616**	373,804
Cash flows from operating activities		
Adjustments for:		
Net gain from investing activities	**5,985**	4,826
Share of (profit)/loss in associates	**56**	163
Other non-cash items included in profit before tax	**89,396**	2,214
Change in operating assets	**(103,399)**	(4,916,213)
Change in operating liabilities	**2,906,503**	1,179,452
Elimination of exchange differences[1]	**(1,010)**	(2,337)
Tax paid	**(54,831)**	(43,169)
Net cash generated from/(used in) operating activities	**3,516,316**	(3,401,260)
Cash flows from investing activities		
Purchase of financial investments	**(8,565,214)**	(7,544,771)
Proceeds from the sale and maturity of financial investments	**5,276,685**	8,890,937
Net cash flows from the purchase and sale of property, plant and equipment	**(6,667)**	(4,392)
Net investment in intangible assets	**(43,623)**	(37,701)
Net cash generated from/(used in) investing activities	**(3,338,819)**	1,304,073
Cash flows from financing activities		
Issuance of non-equity preference shares	**—**	750,000
Dividends paid to shareholders of the parent company	**(379,882)**	(750,830)
Net cash generated from/(used in) financing activities	**(379,882)**	(830)
Net decrease in cash and cash equivalents	**(202,385)**	(2,098,017)
Cash and cash equivalents at 1 Jan	**9,432,395**	9,378,794
Exchange differences in respect of cash and cash equivalents	**1,590**	629
Cash and cash equivalents at 30 Jun[2]	**9,231,600**	7,281,406

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$2,609m (30 Jun 2022: US$1,329m) at central banks.*

The accompanying notes on pages 7 to 20 form an integral part of these financial statements.

Consolidated statement of changes in equity

				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 equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2023	**992,401**	**967,500**	**3,767,148**	**(106,932)**	**(12,188)**	**(150,000)**	**(15,353)**	**5,442,576**
Profit for the period	**—**	**—**	**575,770**	**—**	**—**	**—**	**—**	**575,770**
Other comprehensive income/(expense) (net of tax)	**—**	**—**	**(4,084)**	**10,832**	**(14,036)**	**6,451**	**—**	**(837)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**5,738**	**—**	**—**	**—**	**5,738**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**5,141**	**—**	**—**	**—**	**5,141**
– cash flow hedges	**—**	**—**	**—**	**—**	**(14,036)**	**—**	**—**	**(14,036)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**—**	**—**	**(137)**	**—**	**—**	**—**	**—**	**(137)**
– remeasurement of defined benefit liability	**—**	**—**	**(4,311)**	**—**	**—**	**—**	**—**	**(4,311)**
– exchange differences	**—**	**—**	**364**	**(47)**	**—**	**6,451**	**—**	**6,768**
Total comprehensive income/(expense) for the period	**—**	**—**	**571,686**	**10,832**	**(14,036)**	**6,451**	**—**	**574,933**
Dividends	**—**	**—**	**(379,882)**	**—**	**—**	**—**	**—**	**(379,882)**
Other movements	**—**	**—**	**(7,015)**	**—**	**—**	**—**	**—**	**(7,015)**
At 30 Jun 2023	**992,401**	**967,500**	**3,951,937**	**(96,100)**	**(26,224)**	**(143,549)**	**(15,353)**	**5,630,612**
At 1 Jan 2022	992,401	225,000	4,227,985	(21,189)	3,230	(148,535)	(15,321)	5,263,571
Profit for the period	—	—	295,492	—	—	—	—	295,492
Other comprehensive income/(expense) (net of tax)	—	—	7,613	(119,094)	(3,513)	(12,171)	—	(127,165)
– debt instruments at fair value through other comprehensive income	—	—	—	(119,132)	—	—	—	(119,132)
– equity instruments designated at fair value through other comprehensive income	—	—	—	93	—	—	—	93
– cash flow hedges	—	—	—	—	(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
– remeasurement of defined benefit liability	—	—	(3,947)	—	—	—	—	(3,947)
– exchange differences	—	—	244	(55)	—	(12,171)	—	(11,982)
Total comprehensive income/(expense) for the period	—	—	303,105	(119,094)	(3,513)	(12,171)	—	168,327
New issuance	—	750,000	—	—	—	—	—	750,000
Dividends	—	—	(750,830)	—	—	—	—	(750,830)
Other movements	—	(7,500)	(2,488)	14	—	95	—	(9,879)
At 30 Jun 2022	992,401	967,500	3,777,772	(140,269)	(283)	(160,611)	(15,321)	5,421,189

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

The accompanying notes on pages 7 to 20 form an integral part of these financial statements.

Notes on the interim 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 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

(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 2022. These interim condensed consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2022*.

At 30 June 2023, there were no unendorsed standards effective for the half-year to 30 June 2023 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 2023

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 2022, which are stated in the *Annual Report and Accounts 2022*.

(c) Composition of the group

There were no changes in the composition of the group in the half-year to 30 June 2023.

(d) 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 2022*, as are the methods of computation.

(e) 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.

(f) Tax

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 has become effective for accounting periods beginning on or after 1 June 2023. The effective date for the group will therefore be 1 January 2024. 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 January 2023.

The group has determined that the Law was practically operational as at January 2023, and therefore has been substantively enacted from the perspective of IAS 12 – Income Taxes. The group continues to monitor the issuance of the numerous Cabinet Decisions and assess the impact thereof on its consolidated financial statements. There was no material impact of this development for the accounting period ended 30 June 2023.

3 Net fee income

	At	
	30 Jun 2023	30 Jun 2022
	US$000	US$000
Cards	**83,808**	76,315
Credit facilities	**20,092**	17,209
Account services	**20,888**	19,927
Unit trust	**14,160**	12,034
Performance/Tender bonds	**31,265**	29,513
Global custody	**21,538**	24,410
Remittances	**19,953**	18,309
Imports/exports	**29,393**	30,314
Insurance agency commission	**6,742**	4,579
Corporate/project finance	**4,538**	7,455
Others	**51,435**	54,093
Total Fee Income	**303,812**	294,158
Fee Expense	**(60,703)**	(55,994)
Net Fee Income	**243,109**	238,164

4 Dividends

Dividends to shareholders of the parent company

	30 Jun 2023		30 Jun 2022	
	Per share	**Total**	Per share	Total
	US$	**US$000**	US$	US$000
Dividends paid on ordinary shares				
In respect of:				
– final dividend for 2022	**0.3759**	**350,000**	—	—
– special dividend	**—**	**—**	0.8055	750,000
Total	**0.3759**	**350,000**	0.8055	750,000

5 Segment analysis

Our global businesses

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 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) 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

	2023					
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[1] US$000**	**Total US$000**
Net interest income	**337,550**	**213,717**	**203,666**	**66,397**	**(57,823)**	**763,507**
Net fee income/(expense)	**65,798**	**68,333**	**67,472**	**41,506**	**—**	**243,109**
Net income from financial instruments held for trading or managed on a fair value basis	**24,939**	**25,735**	**747**	**113,825**	**46,810**	**212,056**
Other income	**(771)**	**(1,027)**	**(13,146)**	**(21,980)**	**16,655**	**(20,269)**
Net operating income before change in expected credit losses and other credit impairment charges	**427,516**	**306,758**	**258,739**	**199,748**	**5,642**	**1,198,403**
Change in expected credit losses and other credit impairment charges	**(19,864)**	**13,482**	**6,463**	**(38)**	**—**	**43**
Net operating income	**407,652**	**320,240**	**265,202**	**199,710**	**5,642**	**1,198,446**
Total operating expenses	**(190,578)**	**(119,438)**	**(91,246)**	**(69,045)**	**(54,467)**	**(524,774)**
Operating profit/(loss)	**217,074**	**200,802**	**173,956**	**130,665**	**(48,825)**	**673,672**
Share of profit/(loss) in associates	**—**	**—**	**—**	**—**	**(56)**	**(56)**
Profit/(loss) before tax	**217,074**	**200,802**	**173,956**	**130,665**	**(48,881)**	**673,616**
By geographical region						
U.A.E[2]	**174,604**	**136,037**	**118,188**	**95,764**	**(46,719)**	**477,874**
Qatar	**24,976**	**35,334**	**35,880**	**25,539**	**166**	**121,895**
Rest of Middle East	**17,494**	**29,431**	**19,888**	**9,362**	**(2,328)**	**73,847**
Profit/(loss) before tax	**217,074**	**200,802**	**173,956**	**130,665**	**(48,881)**	**673,616**

Profit/(loss) for the period

	2022					
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[1] US$000	Total US$000
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 charges	(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[2]	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

1 *Inter-segment eliminations are booked under Corporate Centre.*
2 *Includes UAE branch and Head office of the group.*

Balance sheet information

	2023					
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**
Loans and advances to customers (net)	**3,777,170**	**6,515,346**	**8,498,754**	**12,410**	**—**	**18,803,680**
Interest in associates	**—**	**—**	**—**	**—**	**2,400**	**2,400**
Total assets	**12,472,042**	**10,692,038**	**15,580,737**	**11,435,497**	**1,483,233**	**51,663,547**
Customer accounts	**15,496,133**	**6,323,296**	**7,468,942**	**2,046,968**	**—**	**31,335,339**
Total liabilities	**16,994,093**	**7,865,065**	**10,225,021**	**8,341,768**	**2,606,988**	**46,032,935**

Balance sheet information (continued)

	2022					
	Wealth and Personal Banking	Commercial Banking	Global Banking	Markets and Securities Services	Corporate Centre	Total
At 31 Dec	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

6 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2023 are consistent with those applied in the *Annual Report and Accounts 2022.*

Financial instruments carried at fair value and bases of valuation

	At 30 Jun 2023				At 31 Dec 2022			
	Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3	
	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	**Total**	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	US$000	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000
Recurring fair value measurements								
Assets								
Trading assets	**190,687**	**1,655,855**	**214,325**	**2,060,867**	125,529	1,364,508	295,976	1,786,013
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**10,478**	**—**	**23,467**	**33,945**	19,993	—	22,913	42,906
Derivatives	**—**	**1,363,001**	**4,181**	**1,367,182**	—	1,788,745	1,232	1,789,977
Financial investments	**5,378,209**	**1,523,649**	**38,152**	**6,940,010**	3,844,499	802,970	33,011	4,680,480
Liabilities								
Trading liabilities	**130,622**	**389,737**	**—**	**520,359**	61,602	306,446	—	368,048
Financial liabilities designated at fair value	**—**	**1,200,077**	**—**	**1,200,077**	—	1,420,580	—	1,420,580
Derivatives	**—**	**1,278,015**	**8,551**	**1,286,566**	—	1,738,930	8,266	1,747,196

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 2023, there were no transfers between Level 1 and Level 2 (2022: $23m of Financial Investments were transferred from Level 1 to Level 2).

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	**38,152**	**—**	**23,467**	**—**	**61,619**	**—**	**—**
Other derivatives	**—**	**—**	**—**	**4,181**	**4,181**	**8,551**	**8,551**
Other portfolios	**—**	**214,325**	**—**	**—**	**214,325**	—	—
At 30 Jun 2023	**38,152**	**214,325**	**23,467**	**4,181**	**280,125**	**8,551**	**8,551**
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

The basis for determining the fair value of the financial instruments in the table above is explained in the *Annual Report and Accounts 2022.*

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 2023	**33,011**	**295,976**	**22,913**	**1,232**	**8,266**
Total gains/(losses) recognised in profit or loss	**—**	**(3,637)**	**554**	**583**	**(111)**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**(3,637)**	**—**	**583**	**(111)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**554**	**—**	**—**
Total gains recognised in other comprehensive income	**5,141**	**—**	**—**	**—**	**—**
– financial investments: fair value gains/(losses)	**5,141**	**—**	**—**	**—**	**—**
Purchases	**—**	**—**	**—**	**128**	**—**
Sales	**—**	**—**	**—**	**—**	**—**
Settlements	**—**	**(78,014)**	**—**	**—**	**—**
Transfers in	**—**	**—**	**—**	**2,238**	**396**
At 30 Jun 2023	**38,152**	**214,325**	**23,467**	**4,181**	**8,551**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2023	**—**	**(3,637)**	**554**	**583**	**(111)**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**(3,637)**	**—**	**583**	**(111)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**554**	**—**	**—**
At 1 Jan 2022	26,225	347,900	25,315	1,159	3,234
Total gains/(losses) recognised in profit or loss	—	(1,870)	188	1,040	(1,535)
– net income/expense from financial instruments held for trading or managed on a fair value basis	—	(1,870)	—	1,040	(1,535)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	188	—	—
Total gains recognised in other comprehensive income	68	—	—	—	—
– financial investments: fair value losses	68	—	—	—	—
Purchases	—	28,949	—	385	4,395
Settlements	—	(33,388)	—	(722)	—
Transfers out	—	—	—	—	—
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)	—	1,040	(1,535)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	188	—	—

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 2023				At 31 Dec 2022			
	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]	**—**	**(648)**	**—**	**—**	21	(1,759)	—	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**1,783**	**(1,783)**	**—**	**—**	1,926	(1,926)	—	—
Financial investments	**—**	**—**	**3,815**	**(1,908)**	—	—	3,257	(1,628)
Total	**1,783**	**(2,431)**	**3,815**	**(1,908)**	1,947	(3,685)	3,257	(1,628)

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 30 Jun 2023				At 31 Dec 2022			
	Reflected in profit or		Reflected in OCI		Reflected in profit or		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	1,783	(1,783)	3,815	(1,908)	1,926	(1,926)	3,257	(1,628)
Other derivatives	—	(145)	—	—	—	(23)	—	—
Other portfolios	—	(503)	—	—	21	(1,736)	—	—
Total	1,783	(2,431)	3,815	(1,908)	1,947	(3,685)	3,257	(1,628)

7 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of financial instruments not carried at fair value are explained in the *Annual Report and Accounts 2022*.

Fair values of financial instruments not carried at fair value

	At 30 Jun 2023		At 31 Dec 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	US$000	US$000	US$000	US$000
Assets				
Loans and advances to banks	8,129,050	8,131,061	9,056,676	9,058,671
Loans and advances to customers	18,803,680	18,506,206	19,761,741	19,436,175
Reverse repurchase agreements – non-trading	4,962,790	4,982,798	5,293,684	5,309,319
Financial Investments – at amortised cost	4,370,393	4,316,511	3,071,761	3,025,036
Liabilities				
Deposits by banks	4,009,203	4,017,283	4,543,481	4,570,819
Customer accounts	31,335,339	31,248,789	29,975,304	29,893,122
Repurchase agreements – non-trading	2,669,374	2,668,885	933,719	933,682
Debt securities in issue	1,579,756	1,602,468	1,545,420	1,534,842

8 Financial liabilities designated at fair value

	At	
	30 Jun 2023	31 Dec 2022
	US$000	US$000
Deposits by bank and customer accounts	496,042	629,409
Debt securities in issue (Note 9)	704,035	791,171
Total	1,200,077	1,420,580

At 30 June 2023, the accumulated amount of change in fair value attributable to changes in credit risk was a gain of US$0.9m (31 December 2022: US$1m).

9 Debt securities in issue

	At	
	30 Jun 2023	31 Dec 2022
	US$000	US$000
Medium-term notes	1,808,791	1,861,591
Non-equity preference shares	475,000	475,000
Total debt securities in issue	2,283,791	2,336,591
Included within:		
Financial liabilities designated at fair value (Note 8)	(704,035)	(791,171)
Total	1,579,756	1,545,420

Movement in medium-term notes at amortised cost

	At	
	30 Jun 2023	31 Dec 2022
	US$000	US$000
Balance as at 1 Jan	**1,070,420**	1,399,830
New issues	**74,783**	425,750
Repayments	**(43,500)**	(755,160)
Other movements	**3,053**	—
Closing balance	**1,104,756**	1,070,420

10 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 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 2022*.

There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2022*.

Areas of special interest

During the first half of 2023, a number of areas were considered as part of our top and emerging risks because of the effect they have on the group. In this section, we have focused on risks related to geopolitical and macroeconomic risk and the interbank offered rate ('Ibor') transition.

Geopolitical and macroeconomic risk

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. The war's economic impact has reduced as the global economy has largely adapted to the sanctions regimes. Global supply chain disruptions caused by the war in Ukraine have eased, although inflation is likely to remain high as the demand for services remains relatively strong. Higher inflation and interest rates, second order impacts from geopolitical events and the resulting economic uncertainty 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.

Interbank Offered Rates ('IBOR') transition

Interbank offered rates ('IBOR') have previously been used extensively to set interest rates on different types of financial transactions and for valuation purposes, risk measurement and performance benchmarking. 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 to products linked to near risk-free replacement rates ('RFRs') or alternative reference rates.

The publication of UK Sterling, Swiss Franc, Euro and Japanese Yen Libor interest rate benchmarks, as well as Euro Overnight Index Average ('Eonia'), and two US dollar Libor settings ceased from the end of 2021. Following this, the publication of all remaining settings of US dollar Libor ceased from 30 June 2023.

To support any remaining contracts referencing these benchmarks, during April 2023, the FCA announced its decision to require Libor's administrator, IBA to continue to publish the 1-,3- and 6-month USD Libor settings under an unrepresentative 'synthetic' methodology until September 2024. IBOR settings will switch to a synthetic methodology, based on Chicago Mercantile Exchange ('CME') Term SOFR rate and the relevant International Swaps and Derivatives Association ('ISDA') fixed credit spread after June 30, 2023. We continue to support our clients in the transition of the limited number of outstanding contracts relying on the 'synthetic' Libor benchmarks in line with these dates.

Our Ibor transition programme – which is tasked with the development of RFR products and the transition of legacy IBOR products – has implemented the required processes, technology and RFR product capabilities in support of the benchmark cessation events. As a result, the transition of the majority of legacy contracts has been undertaken successfully through 1H23 with the remaining contracts expected to largely complete during 2H23. Specifically, our derivatives portfolio has been largely transitioned through clearing house conversion mechanisms, and use of industry legal fall-back provisions at cessation, leaving a limited number of trades that continue to be discussed with clients. Our Wholesale lending portfolios for uncommitted facilities and the majority of our committed facilities have been repapered in accordance with client discussions. We will continue repapering activities for the remaining balance of committed contracts, until their first interest rate fixing date after cessation. Our structured notes are being transitioned in line with jurisdictional legislative solutions and through client and investor notification. The group remains committed to seeking to remediate or mitigate relevant risks relating to IBOR-demise, as appropriate.

Whilst the majority of our legacy contracts referencing demised IBORs have been transitioned, as a result of remaining contracts, we continue to be exposed to, and actively monitor, risks including:

- regulatory compliance and conduct risks, as the use of 'synthetic' Libor rates, transition of legacy contracts to RFRs or alternative rates, or sales of products referencing RFRs, may not deliver fair client outcomes; and
- 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.

While the level of risk has diminished in line with our process implementation and continued transition of contracts, we will monitor these risks through the remainder of the transition of legacy contracts. Throughout 2023, we plan to continue to engage with our clients and investors to complete an orderly transition of contracts that reference the remaining demising IBORs. Additionally, plans and policies are in place to help us to react to any future regulatory notification of the intention to demise an interest rate benchmark.

Summary of credit risk

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

	At 30 Jun 2023		At 31 Dec 2022	
	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	**19,564,167**	**(760,487)**	20,593,074	(831,333)
Loans and advances to banks at amortised cost	**8,130,669**	**(1,619)**	9,059,836	(3,160)
Other financial assets measured at amortised cost	**13,570,680**	**(4,381)**	10,251,369	(4,432)
– cash and balances at central banks	**1,254,423**	**(133)**	1,056,661	(216)
– items in the course of collection from other banks	**1,632,126**	**—**	75,248	—
– reverse repurchase agreements – non-trading	**4,962,790**	**—**	5,293,684	—
– financial investments	**4,370,699**	**(306)**	3,072,059	(298)
– prepayments, accrued income and other assets	**1,350,642**	**(3,942)**	753,717	(3,918)
Total gross carrying amount on balance sheet	**41,265,516**	**(766,487)**	39,904,279	(838,925)
Loans and other credit-related commitments	**8,020,973**	**(5,997)**	8,100,601	(5,174)
Financial guarantee and similar contract	**2,393,997**	**(494)**	2,456,746	(598)
Total nominal amount off balance sheet	**10,414,970**	**(6,491)**	10,557,347	(5,772)

	Fair value	**allowance for ECL**	Fair value	Memorandum allowance for ECL
	US$000	**US$000**	US$000	US$000
Debt instruments measured at FVOCI	**6,901,858**	**(932)**	4,647,469	(865)

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 2023

	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	**17,200,416**	**1,437,719**	**922,355**	**3,677**	**19,564,167**	**(46,008)**	**(47,321)**	**(664,437)**	**(2,721)**	**(760,487)**
Loans and advances to banks at amortised cost	**8,000,715**	**129,954**	**—**	**—**	**8,130,669**	**(1,380)**	**(239)**	**—**	**—**	**(1,619)**
Other financial assets measured at amortised cost	**13,446,499**	**120,757**	**3,424**	**—**	**13,570,680**	**(830)**	**(205)**	**(3,346)**	**—**	**(4,381)**
Loans and other credit-related commitments	**7,331,850**	**685,240**	**3,883**	**—**	**8,020,973**	**(5,349)**	**(521)**	**(127)**	**—**	**(5,997)**
Financial guarantee and similar contracts	**2,314,513**	**69,801**	**9,683**	**—**	**2,393,997**	**(227)**	**(265)**	**(2)**	**—**	**(494)**
At 30 Jun 2023	**48,293,993**	**2,443,471**	**939,345**	**3,677**	**51,680,486**	**(53,794)**	**(48,551)**	**(667,912)**	**(2,721)**	**(772,978)**
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)
Loans and other credit-related commitments	7,950,803	145,740	4,058	—	8,100,601	(3,451)	(1,611)	(112)	—	(5,174)
Financial guarantee and similar contracts	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)

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 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 selected 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 during 2023. As at 30 June 2023, the UAE central scenario has been assigned a weighting of 75%, the downside scenario 15% 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 probability assigned in the consensus Central scenario for the UAE.

Central scenario

	UAE
Probability (%)	**75**
GDP (annual average growth rate) - (%)	
2023	**3.2**
2024	**3.8**
2025	**4.1**
2026	**3.7**
2027	**3.3**
5 Year average	**3.6**
Oil price (average oil price) - (US$/barrel)	
2023	**76.8**
2024	**71.8**
2025	**69.4**
2026	**67.5**
2027	**65.9**
5 Year average	**70.3**
House Prices (annual average growth rate) - (%)	
2023	**11.1**
2024	**4.4**
2025	**4.5**
2026	**3.9**
2027	**3.3**
5 Year average	**5.4**
Inflation (annual average rate) - (%)	
2023	**3.4**
2024	**2.2**
2025	**2.1**
2026	**2.1**
2027	**2.1**
5 Year average	**2.4**

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	Downside 2 scenario
Probability (%)	**5**	**15**	**5**
GDP growth rate (%)	**7.8 (2Q25)**	**1.1 (2Q24)**	**(4.2) (2Q24)**
Oil price (US$/barrel)	**76.5 (2Q23)**	**65.6 (4Q27)**	**46.4 (3Q23)**
House price growth (%)	**12.8 (3Q23)**	**(0.4) (1Q24)**	**(3.7) (2Q24)**
Inflation rate (%)	**1.1 (3Q24)**	**3.9 (4Q23)**	**4.4 (4Q23)**

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, The group 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 2023	Dec 2022
	US$m	US$m
Reported ECL[2]	**26**	45
Gross carrying/nominal amount[3]	**48,637**	45,064
Consensus Central scenario	**25**	41
Consensus Upside scenario	**21**	30
Consensus Downside scenario	**31**	55
Downside 2 scenario	**47**	93

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 2022, the Downside 2 ECL impact was lower, mostly driven by a combination of changes to severity and the reduction of uncertainty related to the rising energy prices and corresponding management judgemental adjustments. A modest reduction of ECL was observed in the UAE as some of the sectors benefited from increased oil prices.

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 also modelled only for mortgage portfolios using an expert panel model which considers several factors.

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 2 scenario ECL**
At 30 Jun 2023	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Mortgages	**2,048**	**40**	**40**	**39**	**40**	**41**
Credit cards	**437**	**39**	**36**	**18**	**67**	**86**
Other	**700**	**19**	**17**	**11**	**24**	**29**
At 31 Dec 2022						
Mortgages	2,170	37	37	36	38	38
Credit cards	441	41	37	21	68	86
Other	718	17	17	15	19	22

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 'Changes to risk parameters - further lending/repayments (including changes in credit quality)'.

Changes in 'New financial assets originated or purchased', and 'assets derecognised (including final repayments)' represent the impact from 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 2023

	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 2023	**36,959,602**	**(40,301)**	**2,199,737**	**(60,230)**	**1,047,241**	**(736,879)**	**3,677**	**(2,855)**	**40,210,257**	**(840,265)**
Transfers of financial instruments:	**(417,755)**	**(4,889)**	**384,685**	**15,009**	**33,070**	**(10,120)**	**—**	**—**	**—**	**—**
– Transfers from stage 1 to stage 2	**(1,191,698)**	**1,764**	**1,191,698**	**(1,764)**	**—**	**—**	**—**	**—**	**—**	**—**
– Transfers from stage 2 to stage 1	**773,943**	**(6,653)**	**(773,943)**	**6,653**	**—**	**—**	**—**	**—**	**—**	**—**
– Transfers to stage 3	**—**	**—**	**(37,371)**	**11,296**	**37,371**	**(11,296)**	**—**	**—**	**—**	**—**
– Transfers from stage 3	**—**	**—**	**4,301**	**(1,176)**	**(4,301)**	**1,176**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**4,751**	**—**	**(4,411)**	**—**	**(64)**	**—**	**—**	**—**	**276**
New financial assets originated or purchased	**4,264,082**	**(12,966)**	**—**	**—**	**—**	**—**	**—**	**—**	**4,264,082**	**(12,966)**
Asset derecognised (including final repayments)	**(7,171,507)**	**4,488**	**(89,524)**	**4,194**	**(15,282)**	**1,417**	**—**	**—**	**(7,276,313)**	**10,099**
Changes to risk parameters – further lending/repayments (including changes in credit quality)	**1,182,483**	**(4,024)**	**(173,677)**	**(2,923)**	**(24,124)**	**(17,606)**	**—**	**134**	**984,682**	**(24,419)**
Assets written off	**—**	**—**	**—**	**—**	**(105,010)**	**105,010**	**—**	**—**	**(105,010)**	**105,010**
Foreign exchange	**30,783**	**(27)**	**1,492**	**(11)**	**176**	**(173)**	**—**	**—**	**32,451**	**(211)**
Others	**(194)**	**4**	**1**	**26**	**(150)**	**(6,151)**	**—**	**—**	**(343)**	**(6,121)**
At 30 Jun 2023	**34,847,494**	**(52,964)**	**2,322,714**	**(48,346)**	**935,921**	**(664,566)**	**3,677**	**(2,721)**	**38,109,806**	**(768,597)**
ECL release/(charge) for the period		**(7,751)**		**(3,140)**		**(16,253)**		**134**	**—**	**(27,010)**
Recoveries	**—**	**—**	**—**	**—**	**—**	**10,846**		**—**	**—**	**10,846**
Others	**—**	**—**	**—**	**—**	**—**	**(201)**	**—**	**—**	**—**	**(201)**
Total ECL release/ (charge) for the period	**—**	**(7,751)**	**—**	**(3,140)**	**—**	**(5,608)**	**—**	**134**	**—**	**(16,365)**

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 2023 (continued)

	At 30 Jun 2023		Six months ended 30 Jun 2023
	Gross carrying/ nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	**38,109,806**	**(768,597)**	**(16,365)**
Other financial assets measured at amortised cost	**13,570,680**	**(4,381)**	**51**
Performance and other guarantees not considered for IFRS 9	**N/A**	**N/A**	**16,424**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	**51,680,486**	**(772,978)**	**110**
Debt instruments measured at FVOCI	**6,901,858**	**(932)**	**(67)**
Change in expected credit losses and other credit impairment charges	**N/A**	**(773,910)**	**43**

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 $71m during the period from $840m at 31 December 2022 to $769m at 30 June 2023.

This decrease was primarily driven by:

- $105m of assets written off; and
- $10m due to assets derecognised.

These were partly offset by:

- $13m relating to new financial assets originated or purchased;
- $24m relating to changes in risk parameters; and
- $6m relating to other movements.

The ECL charge of $27m for the period presented in the previous table consist of $24m charge relating to underlying credit quality changes, $13m from new assets originated or purchased partially offset by $10m due to assets derecognised.

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 release/(charge) for the period	—	54,517	—	8,335	—	(97,196)	—	(1,356)	—	(35,700)
Recoveries	—	—	—	—	—	22,038	—	—	—	22,038
Others	—	—	—	—	—	(1)	—	—	—	(1)
Total ECL release/(charge) for the period	—	54,517	—	8,335	—	(75,159)	—	(1,356)	—	(13,663)

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 (continued)

	At 31 Dec 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	40,210,257	(840,265)	46,876
Other financial assets measured at amortised cost	10,251,369	(4,432)	1,795
Performance and other guarantees not considered for IFRS 9	—	—	14,299
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	50,461,626	(844,697)	62,970
Debt instruments measured at FVOCI	4,647,469	(865)	274
Change in expected credit losses and other credit impairment charges	—	(845,562)	63,244

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 2023	**US$000**	**%**
Personal		
– residential mortgages	**1,992,448**	**10.2**
– other personal	**1,798,817**	**9.2**
Total	**3,791,265**	**19.4**
Corporate and commercial		
– commercial, industrial and international trade	**9,565,053**	**48.9**
– commercial real estate and other property-related	**2,654,344**	**13.6**
– government	**373,452**	**1.9**
– other commercial	**2,486,643**	**12.7**
Total	**15,079,492**	**77.1**
Financial		
– non-bank financial institutions	**693,410**	**3.5**
Total gross loans and advances to customers	**19,564,167**	**100.0**
Impaired loans (%)		
– as a percentage of gross loans and advances to customers	**4.73**	
Total impairment allowances (%)		
– as a percentage of gross loans and advances to customers	**3.89**	
At 31 Dec 2022		
Personal		
– residential mortgages	2,130,538	10.3
– other personal	1,796,416	8.7
Total	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 commercial	2,619,533	12.7
Total	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	

11 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2023	31 Dec 2022
	US$000	US$000
Guarantees and other contingent liabilities		
Guarantees	**17,432,982**	17,271,717
Commitments		
Documentary credits and short-term trade-related transactions	**795,356**	1,003,673
Undrawn formal standby facilities, credit lines and other commitments to lend	**19,980,732**	18,193,061
Total	**20,776,088**	19,196,734

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.

12 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 2022*. 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 2023. 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

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. Plaintiffs have requested U.S. Supreme Court review of the decision. 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 30 June 2023.

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. In April 2023, following a further appeal to the Court of Cassation by the plaintiffs, the Court decided to uphold the appeal and allow the matter to be sent back for reconsideration by the Court of Appeal. To date, the plaintiffs have not filed an application before the Court of Appeal to reconsider this case. 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 30 June 2023.

13 Related party transactions

There were no changes in the related party transactions described in the *Annual Report and Accounts 2022* that have had a significant effect on the financial position or performance of the group in the half-year to 30 June 2023. All related party transactions that took place in the half-year to 30 June 2023 were similar in nature to those disclosed in the *Annual Report and Accounts 2022.*

14 Events after the balance sheet date

These accounts were approved by the Board of Directors on 1 August 2023 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 2023 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended 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

Date: 01 August 2023

Audit Principal: Stuart Scoular (Reference Number I013742)

Dubai, United Arab Emirates

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