HSBC Bank Middle East Limited

Annual Report and Accounts 2024

HSBC

Contents

2	**Report of the Directors**	
3	**Independent Auditor's Report to the Shareholder of HSBC Bank Middle East Limited**	
7	**Financial Statements**	
7	Consolidated income statement	
8	Consolidated statement of comprehensive income	
9	Consolidated statement of financial position	
10	Consolidated statement of cash flows	
11	Consolidated statement of changes in equity	
12	**Notes on the financial statements**	
12	1	Legal status and principal activities
12	2	Basis of preparation and material accounting policies
21	3	Net fee income
21	4	Operating profit/(loss)
22	5	Employee compensation and benefits
23	6	Auditors' remuneration
23	7	Tax
25	8	Dividends
25	9	Segment analysis
27	10	Trading assets
27	11	Fair values of financial instruments carried at fair value
31	12	Fair values of financial instruments not carried at fair value
32	13	Derivatives
34	14	Financial investments
34	15	Assets charged as security for liabilities, and collateral accepted as security for assets
35	16	Interests in associates and joint arrangement
35	17	Investments in subsidiaries
35	18	Prepayments, accrued income and other assets
36	19	Intangible assets
36	20	Customer Accounts
36	21	Trading liabilities
36	22	Financial liabilities designated at fair value
36	23	Debt securities in issue
37	24	Accruals, deferred income and other liabilities
37	25	Provisions
37	26	Subordinated Liabilities
38	27	Maturity analysis of assets, liabilities and off-balance sheet commitments
39	28	Offsetting of financial assets and financial liabilities
40	29	Foreign exchange exposure
41	30	Called up share capital and share premium
41	31	Risk management
68	32	Contingent liabilities, contractual commitments and guarantees
69	33	Finance lease receivables
69	34	Legal proceedings and regulatory matters
70	35	Related party transactions
71	36	Events after the balance sheet date
72	**Additional information**	

Presentation of Information

This document comprises the Annual Report and Accounts 2024 for HSBC Bank Middle East Limited ('the bank') and its subsidiary undertakings (together 'the group'). It contains the Report of the Directors, Financial Statements together with the Auditor's report and Additional information. References to 'HSBC' or 'the HSBC Group 'or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Refer the HSBC Group Annual Report and Accounts 2024 for disclosures related to Environment, Social and Governance ('ESG').

Board of Directors

Abdulfattah Sharaf, Chairman
Amina Alrustamani, Deputy Chair
Samir Assaf
Paul Lawrence
Selim Kervanci
Daniel Hankinson
Majed Najm
John Bartlett

Change in Directors

- Neslihan Erkazanci, Executive Director stepped down effective 30 May 2024.
- Muna Al Gurg, Non-Executive Director stepped down effective 12 December 2024.
- Stephen Moss, Executive Director stepped down effective 31 December 2024.
- Daniel Hankinson appointed to the Board of Directors and Chief Financial Officer, MENAT region effective 07 June 2024.
- Selim Kervanci appointed to the Board of Directors and Chief Executive Officer, MENAT region effective 01 January 2025.

Principal activities

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.

Attributable profit and dividends

The profit attributable to the shareholder of the parent company amounted to US$868m (2023: US$1,061m) as set out in the consolidated income statement on page 7.

During the year, there were four dividend payments of US$300m declared on 22 May 2024, US$75m declared on 30 September 2024, US$500m declared on 16 December 2024 and US$120m declared on 18 December 2024. In 2023, there were three dividend payments of US$350m declared on 12 April 2023, US$400m declared on 13 September 2023 and US$210m declared on 08 December 2023.

Going concern statement

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

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

Registered office

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

Auditor

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

On behalf of the Board

Tunde Darvai Taylor
Secretary

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of HSBC Bank Middle East Limited (the 'company') and its subsidiaries (together the 'group') as at 31 December 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ('IASB') and as adopted by the United Kingdom ('UK').

What we have audited

The group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2024;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information on pages 12 to 71.

Basis for opinion

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

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

Independence

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

Our Audit approach

Overview

Group scoping	The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of the components and other qualitative factors.
Materiality	Overall group materiality: US$55.7 million, which represents 5% of the profit before tax. Performance materiality: US$42 million.
Key audit matters	The key audit matter identified during the year is Expected credit losses - Impairment on loans and advances to customers.

The scope of our audit

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

How we tailored our group audit scope

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

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

PricewaterhouseCoopers Limited, License no. CL0215
Al Fattan Currency House, Tower 1, Level 8, Unit 801, DIFC, PO Box 11987, Dubai – United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me
PricewaterhouseCoopers Limited is registered with the Dubai Financial Services Authority.

Our Audit approach (continued)

How we tailored our group audit scope (continued)

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

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

Materiality

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

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

Overall materiality	US$55.7 million.
How we determined it	5% of profit before tax.
Rationale for the materiality benchmark applied	We used profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users and is a generally accepted benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$42 million.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that 75%, which is at the upper end of our normal range, was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above US$3 million as well as misstatements that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Our Audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses - Impairment on loans and advances to customers We focused on the Expected Credit Losses ('ECL') for loans and advances to customers due to the materiality of the loan balances and the associated allowances for ECL. In addition, the compliance with IFRS in this area involves management judgement and is subject to a high degree of estimation uncertainty. As disclosed in note 31, the allowance for ECL for loans and advances to customers as at 31 December 2024, is US$562 million. The largest loan portfolios and significant ECL allowances are in the UAE and Qatar. Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement which had the most significant impact on ECL. These included assumptions made in: – the application and determination of forward looking economic scenarios and their probability weights; – estimating material management judgemental adjustments; and – estimating expected cash flows for credit impaired wholesale exposures. The level of estimation uncertainty and judgement has remained high during 2024 as a result of the uncertain macroeconomic and geopolitical environment and a change in global interest rate environment. Economic conditions vary between territories and industries, leading to uncertainties around judgements made in determining the severity and probability weighting of macroeconomic variable forecasts across the different economic scenarios used in ECL models. The modelling methodologies used to estimate ECL are developed using historical experience. The impact of the prevailing economic conditions has resulted in certain inherent limitations in the use of these methodologies to forecast the extent and timing of expected customer defaults and therefore on estimation of ECL. In addition, modelling methodologies do not incorporate all factors that are relevant to estimating ECL, such as differing impact of economic conditions on industry sectors. These limitations are addressed with management adjustments, the measurement of which is inherently judgmental and subject to a high level of estimation uncertainty. Management makes other assumptions which are less judgmental or for which variations have a less significant impact on ECL. These assumptions include: – quantitative scorecards used in determining customer risk ratings ('CRRs'); and – quantitative and qualitative criteria used to assess significant increases in credit risk.	We assessed the design and operating effectiveness of governance and controls over the estimation of ECL. We observed management's review and challenge at governance forums where we observed assessment of ECL for Retail and Wholesale portfolios, including the assessment of model limitations and any resulting management judgmental adjustments. We also tested controls over: – Credit reviews that determine customer risk ratings for wholesale customers; – the identification of credit impairment triggers; – the input of critical data into source systems, and the flow and transformation of critical data from source systems to the impairment calculation engine; – the calculation and approval of management judgmental adjustments to modelled outcomes; and – approval of significant individual impairments. We involved our modelling experts in assessing the appropriateness of modelling methodologies that were enhanced during the year. We also assessed the appropriateness of modelling methodologies that did not change during the year and whether post model adjustments were needed. In addition, we performed substantive testing over: – appropriateness and application of the quantitative and qualitative criteria used to assess significant increase in credit risk; – a sample of critical data used in the year-end ECL calculation and management judgmental adjustments; – a sample of credit reviews to determine that Credit Risk Ratings were appropriately applied to wholesale exposures. We obtained reporting from PricewaterhouseCoopers LLP ('PwC UK') containing the results of certain centralised audit procedures in respect of ECL. We reviewed the reporting received in the context of the appropriateness of the nature, timing and extent of the work performed for the purpose of our audit. Their work included: – the compliance of ECL methodologies and assumptions with the requirements of IFRS 9; – testing of model validation and monitoring controls; – observing the review and challenge at governance forum's discussions around the determination of macroeconomic variable ('MEV') forecasts and their likelihood for different economic scenarios; – testing of the calculation and approval of management judgmental adjustments to modelled outcomes; and – assessment of the significant assumptions made in determining the severity and probability weighting of MEV forecasts using the PwC UK member firm's economic experts. We performed an independent credit assessment for a sample of wholesale exposures, including stage 3, by assessing quantitative and qualitative factors, including an assessment of the financial performance of the borrower, the source of repayments and its history and credit risk mitigation, including collateral, on a discounted cash flow basis. We assessed the disclosures included in the relevant notes to the consolidated financial statements and assessed their compliance with the requirements of applicable IFRS Accounting Standards.

Other information

The Directors are responsible for the other information. The other information comprises the Report of the Directors and Additional information on pages 72 - 81 (but does not include the consolidated financial statements and our auditor's report thereon).

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

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

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

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards as issued by the IASB and as adopted by the United Kingdom (‘UK’) and their preparation in accordance with the applicable regulatory requirements of the DFSA, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

– identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control.

– evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

– conclude on the appropriateness of the Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the group to cease to continue as a going concern.

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

– Plan and perform the group audit to obtain sufficient appropriate evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on legal and other regulatory requirements

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

PricewaterhouseCoopers Limited
19 February 2025

Stuart Scoular
Audit Principal, Reference Number I013742
Dubai, United Arab Emirates

Consolidated income statement

for the year ended 31 December

	Notes	2024 US$000	2023 US$000
Net interest income		**1,589,948**	1,551,274
– interest income		**2,672,415**	2,321,683
– interest expense		**(1,082,467)**	(770,409)
Net fee income	3	**508,184**	475,147
– fee income		**692,096**	612,675
– fee expense		**(183,912)**	(137,528)
Net income from financial instruments held for trading or managed on a fair value basis		**330,609**	396,485
Changes in fair value of designated debt and related derivatives		**(14,730)**	(16,739)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**4,844**	1,305
Gains less losses from financial investments		**1,108**	(25,543)
Dividend income		**58**	58
Other operating income		**83,927**	42,924
Net operating income before change in expected credit losses and other credit impairment charges		**2,503,948**	2,424,911
Change in expected credit losses and other credit impairment charges		**(197,768)**	(90,259)
Net operating income		**2,306,180**	2,334,652
Employee compensation and benefits	5	**(593,962)**	(564,888)
General and administrative expenses		**(502,412)**	(452,300)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(29,211)**	(28,463)
Amortisation and impairment of intangible assets		**(65,971)**	(50,154)
Total operating expenses		**(1,191,556)**	(1,095,805)
Operating profit	4	**1,114,624**	1,238,847
Share of loss in associates	16	**(92)**	(104)
Profit before tax		**1,114,532**	1,238,743
Tax expense	7	**(246,596)**	(178,148)
Profit for the year		**867,936**	1,060,595
Attributable to:			
– shareholder of the parent company		**867,936**	1,060,595
Profit for the year		**867,936**	1,060,595

The accompanying notes on pages 12 to 71 form an integral part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December

	2024 US$000	2023 US$000
Profit for the year	**867,936**	1,060,595
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**8,899**	45,007
– fair value gains/(losses)	**11,537**	79,314
– fair value (gains)/losses transferred to the income statement on disposal	**(1,108)**	(25,543)
– expected credit losses recognised in income statement	**(1,741)**	2,373
– income taxes	**211**	(11,137)
Cash flow hedges	**(12,731)**	14,651
– fair value gains/(losses)	**(44,483)**	18,178
– fair value (gains)/losses reclassified to the income statement	**30,345**	(38)
– income taxes	**1,407**	(3,489)
Exchange differences	**(3,053)**	9,823
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit liability	**(15,940)**	77
Fair value gains/(losses) on equity instruments designated at fair value through other comprehensive income	**8,213**	4,392
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(5,570)**	(1,918)
Other comprehensive income/(expense) for the year, net of tax	**(20,182)**	72,032
Total comprehensive income/(expense) for the year	**847,754**	1,132,627
Attributable to:		
– shareholder of the parent company	**847,754**	1,132,627
Total comprehensive income/(expense) for the year	**847,754**	1,132,627

The accompanying notes on pages 12 to 71 form an integral part of these financial statements.

Consolidated statement of financial position

at 31 December

	Notes	2024 US$000	2023 US$000
Assets			
Cash and balances at central banks		**646,989**	911,615
Trading assets	10	**1,923,099**	1,779,460
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**34,127**	32,630
Derivatives	13	**952,893**	1,141,800
Loans and advances to banks	27	**11,682,290**	8,081,173
Loans and advances to customers	27	**20,440,155**	20,072,182
Reverse repurchase agreements – non-trading	27	**7,878,210**	6,388,753
Financial investments	14	**11,592,083**	10,402,064
Prepayments, accrued income and other assets[1]	18	**1,677,151**	1,436,261
Current tax assets		**8**	9
Interests in associates	16	**2,261**	2,353
Intangible assets	19	**265,025**	247,441
Deferred tax assets	7	**120,359**	115,887
Total assets		**57,214,650**	50,611,628
Liabilities and equity			
Liabilities			
Deposits by banks	27	**6,499,507**	4,395,836
Customer accounts	20	**34,828,268**	31,366,721
Repurchase agreements – non-trading		**2,936,075**	1,801,365
Trading liabilities	21	**837,253**	807,757
Financial liabilities designated at fair value	22	**1,238,466**	1,429,282
Derivatives	13	**785,326**	1,063,259
Debt securities in issue[2]	23	**808,480**	1,043,317
Accruals, deferred income and other liabilities[1]	24	**2,511,551**	2,470,255
Current tax liabilities		**238,625**	163,539
Provisions	25	**233,764**	48,151
Subordinated liabilities[2]	26	**945,751**	475,000
Total liabilities		**51,863,066**	45,064,482
Equity			
Called up share capital	30	**931,055**	931,055
Share premium account	30	**61,346**	61,346
Other equity instrument	30	**990,000**	967,500
Other reserves		**(210,589)**	(212,728)
Retained earnings		**3,579,772**	3,799,973
Total equity		**5,351,584**	5,547,146
Total liabilities and equity		**57,214,650**	50,611,628

1 In 2023 'Items in the course of collection from other banks' (US$73m) was separately presented on the face of the balance sheet but are now reported within 'Prepayments, accrued income and other assets' in the Annual Report and Accounts 2024. Similarly, 'Items in the course of transmission to other banks' (US$290m) which was separately presented are now reported within 'Accruals, deferred income and other liabilities'. Comparative information has been represented accordingly.
2 During the year, the group issued subordinated liabilities of US$950m and redeemed existing preference shares of US$475m. The new issuance is presented as "Subordinated liabilities" whereas the previous issuance was included in "Debt securities in issue". Comparative information has been represented accordingly.

The accompanying notes on pages 12 to 71 form an integral part of these financial statements.

Selim Kervanci
Chief Executive Officer / Director

Daniel Hankinson
Chief Financial Officer / Director

Consolidated statement of cash flows

for the year ended 31 December

	2024 US$000	2023 US$000
Cash flows from operating activities		
Profit/(loss) before tax	**1,114,532**	1,238,743
Adjustments for non-cash items		
Net (gain)/loss from investing activities	**(1,244)**	25,672
Share of (profit)/loss in associates	**92**	104
Depreciation, amortisation and impairment	**95,182**	78,617
Share-based payment expense	**15,736**	13,803
Change in expected credit losses gross of recoveries and other credit impairment charges	**213,900**	106,131
Provisions including pensions	**36,052**	29,408
Other non-cash items included in profit before tax	**(249,286)**	172,722
Elimination of exchange differences[1]	**30,185**	(16,399)
Changes in operating assets and liabilities		
Change in other assets	**(310,789)**	(305,639)
Change in net trading securities and derivatives	**(217,307)**	428,642
Change in loans and advances to banks and customers	**(1,202,424)**	(520,800)
Change in reverse repurchase agreements – non-trading	**(853,405)**	(2,284,907)
Change in financial assets designated at fair value	**(1,497)**	10,276
Change in other liabilities	**28,992**	406,994
Change in deposits by banks and customer accounts	**5,565,218**	1,243,772
Change in debt securities in issue	**(234,837)**	(27,103)
Change in financial liabilities designated at fair value	**(196,386)**	6,784
Change in repurchase agreements – non-trading	**1,134,710**	867,646
Tax paid	**(174,465)**	(65,861)
Net cash generated from/(used in) operating activities	**4,792,959**	1,408,605
Cash flows from investing activities		
Purchase of financial investments	**(9,203,758)**	(12,336,923)
Proceeds from the sale and maturity of financial investments	**8,196,899**	9,639,676
Net cash flows from the purchase and sale of property, plant and equipment	**(14,607)**	(19,491)
Net investment in intangible assets	**(83,685)**	(96,612)
Net cash generated from/(used) in investing activities	**(1,105,151)**	(2,813,350)
Cash flows from financing activities		
Issue of other equity instruments	**250,000**	—
Redemption of other equity instruments	**(225,000)**	—
Subordinated loan capital issued	**945,751**	—
Subordinated loan capital repaid	**(475,000)**	—
Dividends paid	**(1,066,010)**	(1,016,275)
Net cash generated from/(used in) financing activities	**(570,259)**	(1,016,275)
Net increase in cash and cash equivalents	**3,117,549**	(2,421,020)
Cash and cash equivalents at 1 Jan	**7,026,635**	9,432,395
Exchange differences in respect of cash and cash equivalents	**(14,485)**	15,260
Cash and cash equivalents at 31 Dec	**10,129,699**	7,026,635
Cash and cash equivalents comprise:		
– Cash and balances at central banks	**646,989**	911,615
– Loans and advances to banks of one month or less	**8,285,272**	5,474,126
– Reverse repurchase agreement with banks of one month or less	**1,024,575**	388,523
– Cash collateral, net settlement accounts and items in course of collection from/transition to other banks	**(197,710)**	(180,161)
– Treasury bills, other bills and certificates of deposit of less than three months	**370,573**	432,532
Total cash and cash equivalents	**10,129,699**	7,026,635

Interest received was US$2,564m (2023: US$2,472m) and interest paid was US$1,103m (2023: US$733m).

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 12 to 71 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December

	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Other reserves: 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 2024	**992,401**	**967,500**	**3,799,973**	**(57,558)**	**2,463**	**(142,280)**	**(15,353)**	**5,547,146**
Profit/(loss) for the year	—	—	**867,936**	—	—	—	—	**867,936**
Other comprehensive income/ (expense) – net of tax	—	—	**(22,322)**	**17,065**	**(12,731)**	**(2,194)**	—	**(20,182)**
– debt instruments at fair value through other comprehensive income	—	—	—	**8,899**	—	—	—	**8,899**
– equity instruments designated at fair value through other comprehensive income	—	—	—	**8,213**	—	—	—	**8,213**
– cash flow hedges	—	—	—	—	**(12,731)**	—	—	**(12,731)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	**(5,570)**	—	—	—	—	**(5,570)**
– remeasurement of defined benefit asset/liability	—	—	**(15,940)**	—	—	—	—	**(15,940)**
– exchange differences	—	—	**(812)**	**(47)**	—	**(2,194)**	—	**(3,053)**
Total comprehensive income for the year	—	—	**845,614**	**17,065**	**(12,731)**	**(2,194)**	—	**847,754**
New issuance	—	**250,000**	—	—	—	—	—	**250,000**
Dividends	—	—	**(1,066,010)**	—	—	—	—	**(1,066,010)**
Redemption of securities	—	**(225,000)**	—	—	—	—	—	**(225,000)**
Other movements	—	**(2,500)**	**195**	**(1)**	—	—	—	**(2,306)**
At 31 Dec 2024	**992,401**	**990,000**	**3,579,772**	**(40,494)**	**(10,268)**	**(144,474)**	**(15,353)**	**5,351,584**
At 1 Jan 2023	992,401	967,500	3,767,148	(106,932)	(12,188)	(150,000)	(15,353)	5,442,576
Profit/(loss) for the year	—	—	1,060,595	—	—	—	—	1,060,595
Other comprehensive income/ (expense) – net of tax	—	—	287	49,374	14,651	7,720	—	72,032
– debt instruments at fair value through other comprehensive income	—	—	—	45,007	—	—	—	45,007
– equity instruments designated at fair value through other comprehensive income	—	—	—	4,392	—	—	—	4,392
– cash flow hedges	—	—	—	—	14,651	—	—	14,651
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	(1,918)	—	—	—	—	(1,918)
– remeasurement of defined benefit asset/liability	—	—	77	—	—	—	—	77
– exchange differences	—	—	2,128	(25)	—	7,720	—	9,823
Total comprehensive income for the year	—	—	1,060,882	49,374	14,651	7,720	—	1,132,627
New Issuance	—	—	—	—	—	—	—	—
Dividends	—	—	(1,016,275)	—	—	—	—	(1,016,275)
Other movements	—	—	(11,782)	—	—	—	—	(11,782)
At 31 Dec 2023	992,401	967,500	3,799,973	(57,558)	2,463	(142,280)	(15,353)	5,547,146

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

The accompanying notes on pages 12 to 71 form an integral part of these financial statements.

Notes on the financial statements

1 Legal status and principal activities

The bank has its place of incorporation 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 bank's head office and 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 material accounting policies

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB') ('IFRS Accounting Standards'), including interpretations issued by the IFRS Interpretations Committee. These financial statements are also compliant with IFRS Accounting Standards adopted by the United Kingdom ('UK') as there are no applicable differences from IFRS Accounting Standards as issued by the IASB for the periods presented. At 31 December 2024, there were no unendorsed standards effective for the year ended 31 December 2024 affecting these consolidated financial statements.

Standards adopted during the year ended 31 December 2024

There were no new standards, amendments to standards or interpretations that had a significant effect on the group in 2024. Accounting policies have been applied consistently.

(b) Future accounting developments

Minor amendments to IFRSs

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

Other amendments and new IFRS Accounting Standards

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

In May 2024, the IASB issued amendments to 'IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on, or after, 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The group is undertaking an assessment of the potential impact.

IFRS 18 'Presentation and Disclosure in Financial Statements'

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

While IFRS 18 will not change recognition criteria or measurement bases, it may have an impact on presenting information in the financial statements, in particular the income statement and to a lesser extent in the cash flow statement. The group is currently assessing impacts and data readiness before developing a more detailed implementation plan.

(c) Going concern

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

(d) Foreign currencies

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

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date, except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised. In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not US dollars are translated into the group's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into US dollars at the average rates of exchange for the reporting period. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(e) Critical estimates and judgements

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

(f) Segmental analysis

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

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

Products and services

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

– Wealth and Personal Banking ('WPB') provides a full range of retail banking and wealth products to our customers from personal banking to ultra-high net worth individuals. Typically, customer offerings include retail banking products, such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. WPB also provides wealth management services, including investment products, global asset management services, investment management and private wealth solutions for customers with more sophisticated and international requirements.
– Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of our commercial customers, including small and medium sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards) and investments. CMB also offers customers access to products and services offered by other global businesses, such as 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.

Following HSBC Group's organisational announcement in October 2024, effective from 1 January 2025 the group's operating segments will comprise of two new businesses – Corporate and Institutional Banking, and International Wealth and Premier Banking – along with Corporate Centre. These will replace our previously reported operating segments up to 31 December 2024.

(g) Composition of the group

The bank established a new wholesale banking branch in Oman during the first half of 2024. There were no other material changes in the composition of the group.

2.2 Summary of material accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

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

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This election is made for each business combination.

Impairment testing is performed where there is an indication of impairment, by comparing the recoverable amount of the relevant investment to its carrying amount.

Interests in associates and joint arrangements

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

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

(b) Income and expenses

Operating income

Interest income and expense

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

Interest on credit-impaired financial assets is recognised by applying the effective interest rate to the amortised cost (i.e. gross carrying amount of the asset less allowance for ECL).

Non-interest income and expense

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

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

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

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

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

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

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

(c) Valuation of financial instruments

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

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS Accounting Standard offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 11, 'Fair values of financial instruments carried at fair value'.

Critical estimates and judgements

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

Judgements	Estimates
– An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5% of the instrument's valuation is driven by unobservable inputs. – 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).	– Details on the group's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in Note 11.

(d) Financial instruments measured at amortised cost

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

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

Financial assets are reclassified only when the business model for their management changes. Such changes, which are expected to be infrequent, are determined by senior management as a result of external or internal changes and must be significant to operations and demonstrable to external parties. Reclassifications are applied prospectively from the first day of the first reporting period following the change of business model. Where a financial asset is reclassified from a hold-to-collect business model into a fair value through other comprehensive income business model, its fair value is measured at the date of reclassification. Any gain or loss arising from a difference between the previous amortised cost and fair value is recognised in other comprehensive income.

Non-trading reverse repurchase, repurchase and similar agreements

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

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

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

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

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

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

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

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

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

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

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

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

(h) Derivatives

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

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

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. Hedged items that have affected profit or loss are primarily recorded within interest income. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

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

(i) Impairment of amortised cost and FVOCI financial assets

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

Credit-impaired (stage 3)

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

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

Write-off

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

Forbearance

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

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

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

Loan modifications other than forborne loans

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

Significant increase in credit risk (stage 2)

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

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

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

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

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

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

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

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

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

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

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

Unimpaired and without significant increase in credit risk (stage 1)
ECL resulting from possible default events within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

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

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

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

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

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

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

The group makes use of the IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

Model	Regulatory capital	IFRS 9
PD	– Represents long-run average PD throughout a full economic cycle – Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy) – May be subject to a sovereign cap	– Represents current portfolio quality and performance, adjusted for the impact of multiple forward-looking macroeconomic scenarios – Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy)
EAD	– Cannot be lower than current balance.	– Amortisation captured for term products. – Future drawdown captured for revolving products – Based on regulatory conversion factors (same as regulatory capital conversion factors)
LGD	– Downturn LGD (consistent with losses we would expect to suffer during a severe but plausible economic downturn). – Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. – Discounted using appropriate index (minimum 9%). – All collection costs included.	– LGD based on historical observed loss data and adjusted for the impact of multiple forward-looking macroeconomic scenarios – No floors applied, discounted using the original effective interest rate. – Only costs associated with selling collateral and certain third party costs are included.
Other		– Discounted back from point of default to balance sheet date

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

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

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

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

Period over which ECL is measured

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

Forward-looking economic inputs

The group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 47.

Critical estimates and judgements

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

Judgements	Estimates
– Defining what is considered to be a significant increase in credit risk. – Determining the lifetime and point of initial recognition of overdrafts and credit cards. – Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions. – Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss. – Making management adjustments to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgements. – Selecting applicable recovery strategies for certain wholesale credit-impaired loans.	– The sections on pages 47 to 49, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(j) Employee compensation and benefits

Share-based payments

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

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

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

Post-employment benefit plans

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

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

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

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

Critical estimates and judgements

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

Judgements	Estimates
	– A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. – The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. – Key assumptions used in calculating the defined benefit pension obligation for the principal plan and the sensitivity of the calculation to different assumptions are described in Note 5.

(k) Tax

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

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

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

In assessing the probability and sufficiency of future taxable profit, management considers the availability of evidence to support the recognition of deferred tax assets, taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. Management also considers the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

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

Critical estimates and judgements

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

Judgements	Estimates
– Specific judgements supporting deferred tax assets are described in Note 7.	– The recognition of deferred tax assets is sensitive to estimates of future cash flows projected for periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of cash flows thereafter, on which forecasts of future taxable profit are based, and which affect the expected recovery periods and the pattern of utilisation of tax losses and tax credits. See Note 7 for further detail.

(l) Provisions, contingent liabilities and guarantees

Provisions

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

Critical estimates and judgements

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

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

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Financial guarantee contracts

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

(m) Impairment of non-financial assets

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

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

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

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

3 Net fee income

	2024	2023
	US$000	US$000
Credit facilities	**43,456**	41,961
Remittances	**46,405**	43,018
Cards	**200,244**	172,388
Global custody	**39,367**	40,951
Account services	**34,717**	30,634
Import/exports	**51,157**	53,928
Insurance agency	**15,096**	13,062
Corporate/project finance	**33,796**	12,159
Performance/tender bonds	**65,481**	61,800
Unit trusts	**34,708**	25,354
Others[1]	**127,669**	117,420
Total Fee Income	**692,096**	612,675
Fee Expense	**(183,912)**	(137,528)
Net Fee Income	**508,184**	475,147

1 Others include related party transaction fee of US$67m (2023: US$67m). Refer Note 35 for further details on Related Party Transactions.

4 Operating profit/(loss)

Operating profit is stated after the following items:

	2024	2023
	US$000	US$000
Income		
Interest recognised on financial assets measured at amortised cost	**2,288,007**	2,020,344
– of which: Interest recognised on impaired financial assets	**—**	2,772
Interest recognised on financial assets measured at FVOCI	**383,384**	298,763
Fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**540,864**	461,186
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value	**(687,954)**	(456,093)
Fees payable on financial liabilities that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**(136,195)**	(99,979)
Gains/(losses)		
Gains/(losses) on disposal of property, plant and equipment, intangible assets and non-financial investments	**136**	(129)

5 Employee compensation and benefits

	2024	2023
	US$000	US$000
Wages and salaries	**555,375**	530,426
Social security costs	**11,830**	10,469
Post-employment benefits	**26,757**	23,993
Year ended 31 Dec	**593,962**	564,888

Share-based payments

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

	2024	2023
	US$000	US$000
Restricted share awards and other plans	**15,736**	13,803
Year ended 31 Dec	**15,736**	13,803

Defined benefit pension plans

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

	2024	2023
	US$000	US$000
At 1 Jan	**184,068**	183,094
Service cost	**19,406**	18,488
– current service cost	**19,406**	18,488
– past service cost and gains from settlements	**—**	—
Net interest cost on the net defined benefit liability	**6,951**	5,328
Re-measurement effects recognised in other comprehensive income – actuarial (gains)/losses	**15,940**	(77)
– actuarial (gains)/losses	**15,940**	(77)
Exchange differences and other movements	**205**	692
Benefits paid	**(19,655)**	(23,457)
At 31 Dec	**206,915**	184,068

1 There are no plan assets under defined benefit pension plans as at 31 Dec 2024 (31 Dec 2023: nil).
2 These are payable to employees immediately after resignation.

Post-employment defined benefit plans' principal actuarial financial assumptions

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

Key actuarial assumptions for the principal plan

	Discount rate	Rate of pay increase	Combined rate of resignation and employment termination
	%	%	%
United Arab Emirates			
At 31 Dec 2024	**3.4**	**6.0**	**9.9**
At 31 Dec 2023	4.5	6.0	11.7

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

The effect of changes in key assumptions on the principal plan

	United Arab Emirates	
	2024	2023
	US$000	US$000
Discount rate		
Change in scheme obligation at year end from a 25bps increase	**(2,676)**	(2,193)
Change in scheme obligation at year end from a 25bps decrease	**2,750**	2,254
Change in following year scheme cost from a 25bps increase	**(50)**	(45)
Change in following year scheme cost from a 25bps decrease	**53**	47
Rate of pay increase		
Change in scheme obligation at year end from a 25bps increase	**2,772**	2,310
Change in scheme obligation at year end from a 25bps decrease	**(2,713)**	(2,261)
Change in following year scheme cost from a 25bps increase	**434**	384
Change in following year scheme cost from a 25bps decrease	**(424)**	(376)

6 Auditors' remuneration

Audit fees

	2024 US$000	2023 US$000
Audit fees	**2,087**	1,679
Other audit fees	**358**	363
Year ended 31 Dec	**2,445**	2,042

Audit and non-audit fees payable

	2024 US$000	2023 US$000
Fees for HSBC Bank Middle East Limited statutory audit[1]	**2,087**	1,679
– relating to current year	**2,044**	1,656
– relating to prior year	**43**	23
Fees for other services provided to the group	**498**	573
– audit-related assurance services[2]	**388**	448
– other non-audit services	**110**	125
Year ended 31 Dec	**2,585**	2,252

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

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

7 Tax

Tax expense

	2024 US$000	2023 US$000
Current tax	**249,457**	158,174
– for this year	**249,807**	164,058
– adjustments in respect of prior years	**(350)**	(5,884)
Deferred tax	**(2,861)**	19,974
– origination and reversal of temporary differences	**(151)**	19,974
– adjustments in respect of prior years	**(2,710)**	—
Year ended 31 Dec	**246,596**	178,148

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

Tax reconciliation

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

	2024		2023	
	US$000	%	US$000	%
Profit/(loss) before tax	**1,114,532**		1,238,743	
Tax expense				
Taxation at UAE corporate tax rate of 20% (2023: 20%)	**222,906**	**20.0**	247,749	20.0
Effect of differently taxed overseas profits	**(14,195)**	**(1.3)**	(15,292)	(1.2)
Adjustments in respect of prior period liabilities	**(349)**	**–**	(7,708)	(0.6)
Non-taxable income and gains	**(6,918)**	**(0.6)**	(52,898)	(4.3)
Permanent disallowables	**10,615**	**1.0**	1,146	0.1
Change in tax rate	**25,267**	**2.3**	—	—
Local taxes and overseas withholding taxes	**9,113**	**0.8**	3,664	0.3
Other items	**157**	**–**	1,487	0.1
Overall tax expense	**246,596**	**22.2**	178,148	14.4

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

Movement of deferred tax assets and liabilities

	Loan impairment allowances US$000	Other US$000	Total US$000
Assets	**96,258**	**19,629**	**115,887**
Liabilities	—	—	—
At 1 Jan 2024	**96,258**	**19,629**	**115,887**
Income statement	**(3,989)**	**6,850**	**2,861**
Other comprehensive income	—	**1,611**	**1,611**
Foreign exchange and other adjustments	—	—	—
At 31 Dec 2024	**92,269**	**28,090**	**120,359**
Assets	**92,269**	**28,090**	**120,359**
Liabilities	—	—	—
Assets	117,952	30,938	148,890
Liabilities	—	—	—
At 1 Jan 2023	117,952	30,938	148,890
Income statement	(21,694)	1,720	(19,974)
Other comprehensive income	—	(13,105)	(13,105)
Foreign exchange and other adjustments	—	76	76
At 31 Dec 2023	96,258	19,629	115,887
Assets	96,258	19,629	115,887
Liabilities	—	—	—

Unrecognised deferred tax

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was Nil (2023: Nil).

Other information

New UAE corporate tax regime

The UAE Ministry of Finance released Federal Decree – Law No. 47 of 2022 on the Taxation of Corporations and Businesses enacting a Federal Corporate Income tax ('FCIT') regime in the UAE with effective date of 1 January 2024 for the group. Under the new FCIT tax regime, the group will be subject to a 9% Corporate Income tax ('CIT') on its taxable income, subject to relevant tax reliefs and credit as available. The group is already subject to a 20% CIT on its Banking operations under the tax regimes of the individual Emirates. The resulting double taxation was mitigated by the Emirates of Dubai and Sharjah as they have amended their Law to provide for a tax credit for the FCIT.

Dubai Emirate have announced a new tax decree in March 2024 providing relief for FCIT through a reduction of corporate tax rate from 20% to 11% basis which DTA was revalued and write-down for approximately US$42m (booked in first half of 2024) along with the remeasurement of the DTA for the current year at 11%. In December 2024 Dubai Emirates released an Administrative Decision ('AD') which changed the approach for tax relief against FCIT to tax credit (reduction in tax liability rather than a reduction in tax rate). In effect, the DTA position for FY2024 has been reinstated at tax rate of 20% for Dubai Emirate and the DTA write-down in first half of 2024 of approximately US$42m has been reversed. The new Tax Law also repealed the tax exemption historically enjoyed by the Jebel Ali freezone Branches.

The Emirates of Abu Dhabi, Fujairah and Ras Al Khaimah are yet to issue their amended Tax laws to provide for a similar form of tax credit against the FCIT. In the absence of an official publication by these 3 Emirates on the reporting date, the group has provided for tax on the profits of these Emirates at a rate of 29%.

Global Minimum Tax regime

In July 2023, legislation was enacted in the UK, the jurisdiction of the group’s ultimate parent entity, HSBC Holdings plc, to introduce the ‘Pillar Two’ Global Minimum Tax model rules of the Organisation for Economic Cooperation and Development ('OECD') under the Inclusive Framework on Base Erosion and Profit Shifting ('BEPS'), and a Qualified Domestic Minimum top-up tax ('QDMTT') with effect from 1 January 2024.

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

In response to the OECD’s Pillar Two model rules, many national governments have introduced or announced their intention to introduce QDMTT rules that are closely aligned to the OECD’s Pillar Two model rules. Where such QDMTT rules are introduced, they may be expected to have the effect of increasing the local tax rate to a minimum of 15%.

In relation to the group entities, tax legislation has been substantively enacted in the UAE and Bahrain and announced in Qatar, Kuwait, and Oman to implement a QDMTT effective from 1 January 2025. The application of the Pillar Two global minimum tax rules and the introduction of QDMTT is expected to have no material impact for the year ending 31 December 2025. However, the tax impact is dependent upon the ongoing evolution of rules and guidance in the relevant tax jurisdictions.

8 Dividends

Dividends to shareholder of the parent company

	2024		2023	
	Per share	**Total**	Per share	Total
	US$	**US$000**	US$	US$000
Dividends paid on ordinary shares				
In respect of previous year:				
– Final dividend for 2023	**0.3222**	**300,000**	—	—
In respect of current year:				
– First interim dividend	**0.0806**	**75,000**	0.3759	350,000
– Second interim dividend	**0.5370**	**500,000**	0.4296	400,000
– Third interim dividend	**0.1289**	**120,000**	0.2256	210,000
Total	**1.0687**	**995,000**	1.0311	960,000
Total dividends on undated preference shares including Perpetual Additional Tier 1 preference shares classified as equity		**71,010**		56,275
Dividends to shareholder		**1,066,010**		1,016,275

9 Segment analysis

Profit/(loss) for the period

	2024					
Full year	**Wealth and Personal Banking US$000**	**Commercial Banking[1] US$000**	**Global Banking[1] US$000**	**Markets and Securities Services US$000**	**Corporate Centre[2] US$000**	**Total US$000**
Net interest income	**698,902**	**427,832**	**387,889**	**81,857**	**(6,532)**	**1,589,948**
Net fee income	**131,604**	**140,272**	**162,866**	**73,740**	**(298)**	**508,184**
Net income from financial instruments held for trading or managed on a fair value basis	**59,281**	**56,464**	**1,084**	**148,857**	**64,923**	**330,609**
Other income	**26,229**	**3,063**	**9,714**	**83,312**	**(47,111)**	**75,207**
Net operating income before change in expected credit losses and other credit impairment charges	**916,016**	**627,631**	**561,553**	**387,766**	**10,982**	**2,503,948**
Change in expected credit losses and other credit impairment charges	**(25,213)**	**(143,391)**	**(28,578)**	**(586)**	**—**	**(197,768)**
Net operating income	**890,803**	**484,240**	**532,975**	**387,180**	**10,982**	**2,306,180**
Total operating expenses	**(448,094)**	**(259,795)**	**(225,190)**	**(160,870)**	**(97,607)**	**(1,191,556)**
Operating profit/(loss)	**442,709**	**224,445**	**307,785**	**226,310**	**(86,625)**	**1,114,624**
Share of profit/(loss) in associates	**—**	**—**	**—**	**—**	**(92)**	**(92)**
Profit/(loss) before tax	**442,709**	**224,445**	**307,785**	**226,310**	**(86,717)**	**1,114,532**
By geographical region						
U.A.E.	**370,730**	**227,592**	**219,608**	**135,712**	**(83,138)**	**870,504**
Qatar	**47,339**	**6,689**	**59,193**	**50,526**	**(1,458)**	**162,289**
Rest of Middle East	**24,640**	**(9,836)**	**28,984**	**40,072**	**(2,121)**	**81,739**
Profit/(loss) before tax	**442,709**	**224,445**	**307,785**	**226,310**	**(86,717)**	**1,114,532**

	2023					
Net interest income	695,774	430,150	408,470	136,680	(119,800)	1,551,274
Net fee income	127,329	135,411	135,888	77,144	(625)	475,147
Net income from financial instruments held for trading or managed on a fair value basis	53,649	53,360	11,303	174,479	103,694	396,485
Other income	(3,629)	(3,561)	(24,164)	(7,887)	41,246	2,005
Net operating income before change in expected credit losses and other credit impairment charges	873,123	615,360	531,497	380,416	24,515	2,424,911
Change in expected credit losses and other credit impairment charges	(4,134)	(82,119)	(3,290)	(607)	(109)	(90,259)
Net operating income	868,989	533,241	528,207	379,809	24,406	2,334,652
Total operating expenses	(401,886)	(242,991)	(200,188)	(138,387)	(112,353)	(1,095,805)
Operating profit/(loss)	467,103	290,250	328,019	241,422	(87,947)	1,238,847
Share of profit in associates	—	—	—	—	(104)	(104)
Profit/(loss) before tax	467,103	290,250	328,019	241,422	(88,051)	1,238,743
By geographical region						
U.A.E.	386,901	211,586	222,315	154,195	(82,978)	892,019
Qatar	48,415	24,009	67,513	53,805	(739)	193,003
Rest of Middle East	31,787	54,655	38,191	33,422	(4,334)	153,721
Profit/(loss) before tax	467,103	290,250	328,019	241,422	(88,051)	1,238,743

1 In the first half of 2024, following an internal review, a portfolio of our customers within the Kuwait branch was transferred from Commercial Banking to Global Banking. The transfer has been reflected prospectively in the current period.
2 The intra-group elimination items for the global businesses are presented in Corporate Centre.

Balance sheet information

	2024					
	Wealth and Personal Banking	**Commercial Banking[1]**	**Global Banking[1]**	**Markets and Securities Services**	**Corporate Centre[2]**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Loans and advances to customers (net)	**3,922,012**	**7,262,266**	**8,855,174**	**400,703**	**—**	**20,440,155**
Interest in associates	**—**	**—**	**—**	**—**	**2,261**	**2,261**
Total assets	**12,669,701**	**11,402,151**	**17,736,021**	**15,807,657**	**(400,880)**	**57,214,650**
Customer accounts	**15,744,541**	**7,311,928**	**9,983,609**	**1,801,387**	**(13,197)**	**34,828,268**
Total liabilities	**16,453,834**	**8,944,985**	**16,817,947**	**10,173,326**	**(527,026)**	**51,863,066**
	2023					
Loans and advances to customers (net)	3,824,371	6,640,306	8,646,574	960,931	—	20,072,182
Interest in associates	—	—	—	—	2,353	2,353
Total assets	10,910,548	10,109,931	15,718,176	13,097,184	775,789	50,611,628
Customer accounts	15,570,991	6,789,552	7,352,602	1,653,576	—	31,366,721
Total liabilities	16,085,294	8,154,642	11,194,542	8,986,028	643,976	45,064,482

1 In the first half of 2024, following an internal review, a portfolio of our customers within the Kuwait branch was transferred from Commercial Banking to Global Banking. The transfer has been reflected prospectively in the current period.
2 The intra-group elimination items for the global businesses are presented in Corporate Centre.

Other financial information

Information by country

	2024		2023	
	External net operating income[1]	**Non-current assets[2]**	External net operating income[1]	Non-current assets[2]
	US$000	**US$000**	US$000	US$000
U.A.E.	**2,003,606**	**452,183**	1,909,014	462,001
Qatar	**307,609**	**23,325**	319,637	20,524
Rest of Middle East	**192,733**	**46,596**	196,260	24,316
Total	**2,503,948**	**522,104**	2,424,911	506,841

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

Performance ratios

	2024					
	Wealth and Personal Banking	**Commercial Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre**	**Total**
	%	**%**	**%**	**%**	**%**	**%**
Year ended 31 December 2024						
Share of the group's profit before tax	**39.7**	**20.1**	**27.6**	**20.3**	**(7.8)**	**100.0**
Cost efficiency ratio[1]	**48.9**	**41.4**	**40.1**	**41.5**	**888.8**	**47.6**
	2023					
Year ended 31 December 2023						
Share of the group's profit before tax	37.7	23.4	26.5	19.5	(7.1)	100.0
Cost efficiency ratio[1]	46.0	39.5	37.7	36.4	458.3	45.2

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

10 Trading assets

	2024	2023
	US$000	US$000
Trading assets:		
– not subject to repledge or resale by counterparties	1,923,099	1,779,460
At 31 Dec	**1,923,099**	1,779,460
Debt securities	470,998	382,655
Treasury and other eligible bills	224,031	68,735
Trading securities	**695,029**	451,390
Trading reverse repurchase agreements	1,228,070	1,328,070
At 31 Dec	**1,923,099**	1,779,460

11 Fair values of financial instruments carried at fair value

Control framework

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

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

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

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

Financial liabilities measured at fair value

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

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

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

Fair value hierarchy

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

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

Financial instruments carried at fair value and bases of valuation

	2024				2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**459,899**	**1,335,099**	**128,101**	**1,923,099**	266,473	1,127,735	385,252	1,779,460
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**10,529**	**—**	**23,598**	**34,127**	10,114	—	22,516	32,630
Derivatives	**—**	**920,866**	**32,027**	**952,893**	—	1,096,376	45,424	1,141,800
Financial investments	**5,088,163**	**1,380,265**	**458,803**	**6,927,231**	4,461,225	1,091,181	431,903	5,984,309
Liabilities								
Trading liabilities	**198,545**	**638,708**	**—**	**837,253**	197,930	609,827	—	807,757
Financial liabilities designated at fair value	**—**	**1,238,466**	**—**	**1,238,466**	—	1,429,282	—	1,429,282
Derivatives	**—**	**760,569**	**24,757**	**785,326**	—	1,047,383	15,876	1,063,259

The balance as at 31 December 2024 under financial assets mandatorily measured at fair value through profit or loss is US$24m (2023: US$23m) and financial assets designated at fair value through profit or loss is US$11m (2023: US$10m).

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarter 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 2024, US$237m of Financial Investments transferred from Level 2 to Level 1 (2023: US$72m). There were no other transfers between Level 1 and Level 2. The transfers between Level 2 and Level 3 are presented in 'Movement in Level 3 financial instruments' on page 30.

Fair value adjustments

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

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

Bid-offer

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

Uncertainty

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

Credit and debit valuation adjustment

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

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

Funding fair value adjustment

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

Inception profit (Day 1 P&L reserves)

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

Fair value valuation bases

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

	Assets					Liabilities	
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Derivatives	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Private equity including strategic investments	**45,767**	**—**	**23,598**	**—**	**69,365**	**—**	**—**
Derivatives	**—**	**—**	**—**	**32,027**	**32,027**	**24,757**	**24,757**
Other portfolios	**413,036**	**128,101**	**—**	**—**	**541,137**	**—**	**—**
At 31 Dec 2024	**458,803**	**128,101**	**23,598**	**32,027**	**642,529**	**24,757**	**24,757**
Private equity including strategic investments	37,414	—	22,516	—	59,930	—	—
Derivatives	—	—	—	45,424	45,424	15,876	15,876
Other portfolios	394,489	385,252	—	—	779,741	—	—
At 31 Dec 2023	431,903	385,252	22,516	45,424	885,095	15,876	15,876

Private equity including strategic investments

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

Derivatives

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

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

Movement in Level 3 financial instruments

	Assets				Liabilities	
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Designated at fair value	Derivatives
	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2024	**431,903**	**385,252**	**22,516**	**45,424**	**—**	**15,876**
Total gains/(losses) recognised in profit or loss	**—**	**(2,838)**	**2,307**	**7,790**	**—**	**22,669**
– net income/expense from financial instruments held for trading or managed on a fair value basis	**—**	**(2,838)**	**—**	**7,790**	**—**	**22,669**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**2,307**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income	**14,189**	**—**	**—**	**—**	**—**	**—**
– financial investments: fair value gains/(losses)	**14,212**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**(23)**	**—**	**—**	**—**	**—**	**—**
Purchases	**130,730**	**—**	**—**	**—**	**—**	**—**
Sales	**—**	**—**	**(1,225)**	**—**	**—**	**—**
Settlements	**—**	**(254,313)**	**—**	**(13,664)**	**(92,666)**	**(11,222)**
Transfers out	**(152,459)**	**—**	**—**	**(7,523)**	**—**	**(2,566)**
Transfers in	**34,440**	**—**	**—**	**—**	**92,666**	**—**
At 31 Dec 2024	**458,803**	**128,101**	**23,598**	**32,027**	**—**	**24,757**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2024	**—**	**1,152**	**2,235**	**50,599**	**—**	**(47,181)**
– net income/expense from financial instruments held for trading or managed on a fair value basis	**—**	**1,152**	**—**	**50,599**	**—**	**(47,181)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**2,235**	**—**	**—**	**—**
At 1 Jan 2023	33,011	295,976	22,913	1,232	—	8,266
Total gains/(losses) recognised in profit or loss	—	(3,202)	565	28,958	—	7,227
– net income from financial instruments held for trading or managed on a fair value basis	—	(3,202)	—	28,958	—	7,227
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	565	—	—	—
Total gains/(losses) recognised in other comprehensive income	4,403	—	—	—	—	—
– financial investments: fair value gains/(losses)	4,395	—	—	—	—	—
– Exchange differences	8	—	—	—		—
Purchases	248,915	219,890	—	12,997	—	—
Sales	—	(40,024)	(962)	—	—	—
Settlements	—	(87,388)	—	—	—	—
Transfers out	—	—	—	—	—	(14)
Transfers in	145,574	—	—	2,237	—	397
At 31 Dec 2023	431,903	385,252	22,516	45,424	—	15,876
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2023	—	(3,202)	565	28,958	—	7,227
– net income/expense from financial instruments held for trading or managed on a fair value basis	—	(3,202)	—	28,958	—	7,227
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	565	—	—	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 Dec 2024				At 31 Dec 2023			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Derivatives and trading assets[1]	15,531	(15,531)	—	—	4,801	(4,801)	—	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	1,180	(1,180)	—	—	1,711	(1,711)	—	—
Financial investments	—	—	7,505	(5,382)	—	—	6,433	(4,709)
Total	16,711	(16,711)	7,505	(5,382)	6,512	(6,512)	6,433	(4,709)

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

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

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

	At 31 Dec 2024				At 31 Dec 2023			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Private equity including strategic investments	1,180	(1,180)	4,246	(2,123)	1,711	(1,711)	3,472	(1,748)
Derivatives	15,071	(15,071)	—	—	1,818	(1,818)	—	—
Other portfolios	460	(460)	3,259	(3,259)	2,983	(2,983)	2,961	(2,961)
Total	16,711	(16,711)	7,505	(5,382)	6,512	(6,512)	6,433	(4,709)

12 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	US$000	US$000	US$000	US$000	US$000
At 31 Dec 2024					
Assets					
Loans and advances to banks	11,682,290	—	11,681,930	—	11,681,930
Loans and advances to customers	20,440,155	—	—	20,077,597	20,077,597
Reverse repurchase agreements – non-trading	7,878,210	—	7,908,746	—	7,908,746
Financial Investments	4,664,852	3,451,740	705,625	463,741	4,621,106
Liabilities					
Deposits by banks	6,499,507	—	6,528,241	—	6,528,241
Customer accounts	34,828,268	—	34,775,457	—	34,775,457
Repurchase agreements – non-trading	2,936,075	—	2,936,697	—	2,936,697
Debt securities in issue	808,480	—	805,745	—	805,745
Subordinated Liabilities	945,751	—	957,315	—	957,315
At 31 Dec 2023					
Assets					
Loans and advances to banks	8,081,173	—	8,081,010	—	8,081,010
Loans and advances to customers	20,072,182	—	—	19,718,081	19,718,081
Reverse repurchase agreements – non-trading	6,388,753	—	6,409,726	—	6,409,726
Financial Investments	4,417,755	3,882,635	421,693	93,240	4,397,568
Liabilities					
Deposits by banks	4,395,836	—	4,432,325	—	4,432,325
Customer accounts	31,366,721	—	31,356,414	—	31,356,414
Repurchase agreements – non-trading	1,801,365	—	1,801,355	—	1,801,355
Debt securities in issue	1,043,317	—	1,034,291	—	1,034,291
Subordinated Liabilities	475,000	—	494,779	—	494,779

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

Valuation

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

Loans and advances to banks and customers

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

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

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

Financial investments

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

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

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

Repurchase and reverse repurchase agreements – non-trading

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

13 Derivatives

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

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Foreign exchange	**106,448,597**	**1,824,936**	**455,787**	**3,291**	**459,078**	**399,344**	**760**	**400,104**
Interest rate	**29,361,602**	**5,341,772**	**413,993**	**79,812**	**493,805**	**367,880**	**14,321**	**382,201**
Equities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Credit	**304,950**	**—**	**10**	**—**	**10**	**3,021**	**—**	**3,021**
At 31 Dec 2024	**136,115,149**	**7,166,708**	**869,790**	**83,103**	**952,893**	**770,245**	**15,081**	**785,326**
Foreign exchange	103,213,939	1,832,093	485,699	3,450	489,149	481,597	78	481,675
Interest rate	28,771,851	4,359,119	588,976	63,537	652,513	561,067	18,058	579,125
Equities	56,294	—	—	—	—	—	—	—
Credit	147,988	—	138	—	138	2,459	—	2,459
At 31 Dec 2023	132,190,072	6,191,212	1,074,813	66,987	1,141,800	1,045,123	18,136	1,063,259

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

Use of derivatives

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

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

Trading derivatives

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

Hedge accounting derivatives

Hedged risk components

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

Fair value hedges

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

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet	Change in fair value[2]
Hedged Risk	**US$000**	**US$000**	**US$000**	**presentation**	**US$000**
Interest rate	**2,421,296**	**51,991**	**5,615**	**Derivatives**	**23,794**
At 31 Dec 2024	**2,421,296**	**51,991**	**5,615**		**23,794**
Interest rate	1,028,676	25,499	10,243	Derivatives	(89,775)
At 31 Dec 2023	1,028,676	25,499	10,243		(89,775)

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

Hedged item by hedged risk

	Hedged Item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet	Change in fair value[1]	Recognised in profit and loss	Profit and loss
Hedged Risk	**US$000**	**US$000**	**US$000**	**US$000**	**presentation**	**US$000**	**US$000**	**presentation**
Interest rate	**1,533,130**	**—**	**(12,842)**	**—**	**Financial investments**	**(7,870)**		
Interest rate	**13,164**	**—**	**(637)**	**—**	**Loans and advances to customers**	**1,477**	**(500)**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**—**	**665,976**	**—**	**(631)**	**Debt securities in issue**	**(3,767)**		
Interest rate	**—**	**207,487**	**—**	**386**	**Customer accounts**	**(386)**		
At 31 Dec 2024	**1,546,294**	**873,463**	**(13,479)**	**(245)**		**(10,546)**	**(500)**	
Interest rate	949,325	—	4,972	—	Financial investments	88,939		
Interest rate	41,048	—	1,756	—	Loans and advances to customers	725	(850)	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	—	57,548	—	4,398	Debt securities in issue	(469)		
Interest rate	—	—	—	—	Deposits by banks	(270)		
At 31 Dec 2023	990,373	57,548	6,728	4,398		88,925	(850)	

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

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

Cash flow hedges

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

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

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

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
Hedged Risk	Notional amount[1] US$000	Assets US$000	Liabilities US$000	Balance sheet presentation	Change in fair value[2] US$000	Change in fair value[3] US$000	Recognised in profit and loss US$000	Profit and loss presentation
Foreign currency	**1,824,936**	**3,291**	**761**	**Derivatives**	**248**	**221**	**(27)**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**2,920,476**	**26,950**	**8,706**	**Derivatives**	**(44,731)**	**(44,841)**	**(110)**	
At 31 Dec 2024	**4,745,412**	**30,241**	**9,467**		**(44,483)**	**(44,620)**	**(137)**	
Foreign currency	1,832,093	3,450	78	Derivatives	285	330	(45)	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	3,330,443	38,038	7,815	Derivatives	18,079	18,079	—	
At 31 Dec 2023	5,162,536	41,488	7,893		18,364	18,409	(45)	

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

14 Financial investments

Carrying amount of financial investments

	2024 US$000	2023 US$000
Financial investments measured at fair value through other comprehensive income	**6,927,231**	5,984,309
– Treasury and other eligible bills	**2,945,449**	2,950,793
– Debt securities	**3,936,015**	2,996,102
– Equity securities[1]	**45,767**	37,414
Debt instruments measured at amortised cost	**4,664,852**	4,417,755
– Treasury and other eligible bills	**—**	1,263,692
– Debt securities	**4,664,852**	3,154,063
At 31 Dec	**11,592,083**	10,402,064

1 These mainly include investment in HSBC Türkiye and dividend recognised on this investment during the year was nil (2023: nil).

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

Assets charged as security for liabilities

Financial assets pledged as collateral

	2024 US$000	2023 US$000
Debt securities	**1,101,676**	828,443
At 31 Dec	**1,101,676**	828,443

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

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is US$9,996m (2023: US$8,831m). The fair value of any such collateral sold or repledged is US$6,896m (2023: US$2,979m). The group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

16 Interests in associates and joint arrangement

Associates of the group

	At 31 Dec 2024			
	Country of incorporation	**Principal activity**	**The group's interest in equity capital**	**Issued equity capital**
MENA Infrastructure Fund (GP) Limited	**Dubai, UAE**	**Private Equity fund management**	**33.33%**	**US$0.99m fully paid**

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

Movements in interests in associates

	2024	2023
	US$000	US$000
At 1 Jan	**2,353**	2,457
Share of results	**(92)**	(104)
At 31 Dec	**2,261**	2,353

Joint arrangement of the group

	At 31 Dec 2024			
	Country of incorporation	**Principal activity**	**The group's interest in equity capital**	**Issued equity capital**
HSBC Middle East Leasing Partnership – (Joint operation)	**Dubai, UAE**	**Leasing**	**15.00%**	**US$95m fully paid**

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

During the year, there has been a reduction in issued equity capital from US$282 million to US$95 million.

17 Investments in subsidiaries

Subsidiary undertakings of the group

	At 31 Dec 2024	
	Country of incorporation or registration	**Group's interest in equity capital**
HSBC Middle East Asset Company LLC	**Dubai, UAE**	**100%**
HSBC Middle East Securities LLC	**Dubai, UAE**	**100%**
HSBC Bank Middle East Representative Office Morocco S.A.R.L. (in liquidation)	**Morocco**	**100%**

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

18 Prepayments, accrued income and other assets

	2024	2023
	US$000	US$000
Prepayments and accrued income	**450,694**	434,836
Items in course of collection from other banks	**48,482**	72,535
Endorsements and acceptances	**734,460**	445,797
Other accounts	**188,696**	226,045
Property, plant and equipment[1]	**254,819**	257,048
At 31 Dec	**1,677,151**	1,436,261

1 As at 31 December 2024, net book value of HSBC Tower was US$205m (2023: US$215m) and depreciation charged during the year was US$9m (2023: US$9m).

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

Endorsements and acceptances

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

19 Intangible assets

Included within intangible assets is internally generated software with a net carrying value of US$265m (2023: US$247m).

During the year, capitalisation of internally generated software was US$83m (2023: US$97m), amortisation and impairment was US$66m (2023: US$50m).

20 Customer Accounts

	2024	2023
	US$000	US$000
Current account	**22,679,820**	20,621,840
Saving account	**3,633,876**	3,622,876
Fixed deposits	**8,508,898**	7,118,379
Others	**5,674**	3,626
At 31 Dec	**34,828,268**	31,366,721

21 Trading liabilities

	2024	2023
	US$000	US$000
Trading repurchase agreements	**614,814**	594,374
Net short positions in securities	**216,459**	213,383
Other	**5,980**	—
At 31 Dec	**837,253**	807,757

22 Financial liabilities designated at fair value

	2024	2023
	US$000	US$000
Deposits by banks and customer accounts	**694,791**	734,949
Debt securities in issue (Note 23)	**543,675**	694,333
Total	**1,238,466**	1,429,282

At 31 December 2024, the accumulated change in fair value attributable to changes in credit risk was nil (2023: US$1m loss). As at 31 December 2024, the difference between the carrying amount and the amount contractually required to be paid at maturity was US$61m (2023: US$18m).

23 Debt securities in issue

	2024		2023	
	Carrying amount	Fair value	Carrying amount	Fair value
	US$000	US$000	US$000	US$000
Medium-term notes	**1,352,155**	**1,349,420**	1,737,650	1,728,624
Total debt securities in issue	**1,352,155**	**1,349,420**	1,737,650	1,728,624
Included within:				
– financial liabilities designated at fair value (Note 22)	**(543,675)**	**(543,675)**	(694,333)	(694,333)
At 31 Dec	**808,480**	**805,745**	1,043,317	1,034,291

Movement in medium-term notes at amortised cost

	2024 US$000	2023 US$000
At 1 Jan	**1,043,317**	1,070,420
New issues	**376,179**	61,278
Repayments	**(600,785)**	(104,250)
Other movements	**(10,231)**	15,869
At 31 Dec	**808,480**	1,043,317

24 Accruals, deferred income and other liabilities

	2024 US$000	2023 US$000
Accruals and deferred income	**453,912**	383,945
Items in course of transmission to other banks	**243,938**	289,975
Share-based payments liability to HSBC Holdings plc	**25,687**	22,054
Endorsements and acceptances	**735,202**	447,970
Employee benefit liabilities (Note 5)	**206,915**	184,068
Margin deposits	**310,836**	365,975
Transitory accounts	**19,896**	13,065
Other liabilities	**515,165**	763,203
At 31 Dec	**2,511,551**	2,470,255

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

25 Provisions

	Restructuring costs US$000	Contractual commitments US$000	Legal proceedings and regulatory matters US$000	Other provisions US$000	Total US$000
At 1 Jan 2024	**8,012**	**37,033**	**3,088**	**18**	**48,151**
Additions	**11,638**	**—**	**13,264**	**2,829**	**27,731**
Amounts utilised	**(8,533)**	**—**	**(131)**	**(103)**	**(8,767)**
Unused amounts reversed	**(2,179)**	**—**	**(13,305)**	**(2)**	**(15,486)**
Net change in expected credit loss provision	**—**	**182,136**	**—**	**—**	**182,136**
Exchange and other movements	**—**	**—**	**(1)**	**—**	**(1)**
At 31 Dec 2024	**8,938**	**219,169**	**2,915**	**2,742**	**233,764**
At 1 Jan 2023	9,300	34,229	3,274	9,851	56,654
Additions	11,030	—	323	73	11,426
Amounts utilised	(9,934)	—	(456)	(6,488)	(16,878)
Unused amounts reversed	(2,384)	—	(32)	(3,418)	(5,834)
Net change in expected credit loss provision	—	2,804	—	—	2,804
Exchange and other movements	—	—	(21)	—	(21)
At 31 Dec 2023	8,012	37,033	3,088	18	48,151

26 Subordinated liabilities

	2024 US$000	2023 US$000
At amortised cost		
– subordinated liabilities	**945,751**	475,000
At 31 Dec	**945,751**	475,000

Subordinated liabilities rank behind senior obligations and generally count towards the capital base of the group. Capital securities may be called and redeemed by the group subject to prior notification to the DFSA. Subordinated liabilities carry a coupon of SOFR + Margin 2.09%(2023: SOFR + Margin 2.70%). The balance sheet amounts disclosed in the above table are presented on an IFRS basis and may not reflect the amount that the instruments contribute to regulatory capital.

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

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

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

Maturity analysis of assets and liabilities

	At 31 Dec 2024				
	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	US$000	US$000	US$000	US$000	US$000
Financial assets					
Trading assets	**1,459,678**	**217,022**	**246,399**	**—**	**1,923,099**
Derivatives	**880,996**	**8,646**	**57,829**	**5,422**	**952,893**
Loans and advances to banks	**9,379,228**	**1,680,127**	**556,885**	**66,050**	**11,682,290**
Loans and advances to customers	**5,074,416**	**3,341,992**	**8,361,982**	**3,661,765**	**20,440,155**
Reverse repurchase agreements – non-trading	**4,017,274**	**1,309,727**	**2,551,209**	**—**	**7,878,210**
Financial investments	**1,972,325**	**1,790,326**	**7,388,873**	**440,559**	**11,592,083**
Other financial assets	**1,146,857**	**167,404**	**—**	**—**	**1,314,261**
Total	**23,930,774**	**8,515,244**	**19,163,177**	**4,173,796**	**55,782,991**
Non-Financial assets	**—**	**—**	**—**	**721,955**	**721,955**
Financial liabilities					
Deposits by banks	**1,349,565**	**1,569,942**	**3,580,000**	**—**	**6,499,507**
Customer accounts	**31,479,914**	**3,026,037**	**322,317**	**—**	**34,828,268**
Repurchase agreements – non-trading	**1,532,771**	**874,355**	**528,949**	**—**	**2,936,075**
Trading liabilities	**466,427**	**—**	**370,826**	**—**	**837,253**
Financial liabilities designated at fair value	**576,559**	**165,770**	**126,362**	**369,775**	**1,238,466**
Derivatives	**770,301**	**866**	**12,418**	**1,741**	**785,326**
Debt securities in issue	**—**	**463,314**	**345,166**	**—**	**808,480**
Subordinated liabilities	**—**	**—**	**—**	**945,751**	**945,751**
Other financial liabilities	**1,810,883**	**172,596**	**18,116**	**2,283**	**2,003,878**
Total	**37,986,420**	**6,272,880**	**5,304,154**	**1,319,550**	**50,883,004**
Non-Financial liabilities	**—**	**—**	**—**	**736,127**	**736,127**
Loan and other credit-related commitments	**24,134,238**	**—**	**—**	**—**	**24,134,238**
Financial guarantees and similar contracts	**19,277,379**	**—**	**—**	**—**	**19,277,379**

	At 31 Dec 2023				
Financial assets					
Trading assets	726,065	665,439	387,956	—	1,779,460
Derivatives	1,075,674	2,876	63,161	89	1,141,800
Loans and advances to banks	6,015,361	876,346	1,129,377	60,089	8,081,173
Loans and advances to customers	4,638,267	3,224,962	7,342,412	4,866,541	20,072,182
Reverse repurchase agreements – non-trading	2,545,376	2,133,048	1,710,329	—	6,388,753
Financial investments	1,338,405	4,219,875	4,690,565	153,219	10,402,064
Other financial assets	954,300	96,099	6,562	—	1,056,961
Total	17,293,448	11,218,645	15,330,362	5,079,938	48,922,393
Non-Financial assets	—	—	—	673,874	673,874
Financial liabilities					
Deposits by banks	769,367	926,497	2,699,972	—	4,395,836
Customer accounts	29,114,691	2,207,031	44,999	—	31,366,721
Repurchase agreements – non-trading	858,608	707,564	235,193	—	1,801,365
Trading liabilities	492,768	—	314,989	—	807,757
Financial liabilities designated at fair value	323,041	1,073,943	32,298	—	1,429,282
Derivatives	1,045,129	—	17,325	805	1,063,259
Debt securities in issue	600,785	—	442,532	—	1,043,317
Subordinated liabilities	—	—	—	475,000	475,000
Other financial liabilities	1,801,400	100,646	24,142	2,833	1,929,021
Total	35,005,789	5,015,681	3,811,450	478,638	44,311,558
Non-Financial liabilities	—	—	—	462,949	462,949
Loan and other credit-related commitments	21,964,634	—	—	—	21,964,634
Financial guarantees and similar contracts	17,625,891	—	—	—	17,625,891

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

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years
	US$000	US$000	US$000	US$000	US$000
Deposits by banks	**777,960**	**656,718**	**1,789,267**	**3,914,072**	**—**
Customer accounts	**29,332,110**	**2,190,349**	**3,076,558**	**334,540**	**—**
Repurchase agreements – non-trading	**846,003**	**722,558**	**910,885**	**558,304**	**—**
Trading liabilities	**837,253**	**—**	**—**	**—**	**—**
Financial liabilities designated at fair value	**172,084**	**408,309**	**170,764**	**150,051**	**398,148**
Derivatives	**770,303**	**—**	**866**	**12,417**	**1,741**
Debt securities in issue	**2,292**	**4,585**	**483,163**	**367,294**	**—**
Subordinated liabilities	**4,794**	**9,587**	**43,144**	**230,100**	**1,233,376**
Other financial liabilities	**1,514,833**	**334,055**	**173,285**	**19,811**	**3,119**
Total	**34,257,632**	**4,326,161**	**6,647,932**	**5,586,589**	**1,636,384**
Loan and other credit-related commitments	**24,134,238**	**—**	**—**	**—**	**—**
Financial guarantees and similar contracts	**19,277,379**	**—**	**—**	**—**	**—**
At 31 Dec 2024	**77,669,249**	**4,326,161**	**6,647,932**	**5,586,589**	**1,636,384**
Deposits by banks	731,118	70,688	1,062,645	2,909,614	—
Customer accounts	27,184,240	1,967,004	2,242,895	46,825	—
Repurchase agreements – non-trading	676,499	201,174	731,181	250,916	—
Trading liabilities	807,757	—	—	—	—
Financial liabilities designated at fair value	225,303	104,725	1,084,036	33,135	—
Derivatives	1,045,129	—	—	17,325	805
Debt securities in issue	276,810	328,474	6,945	452,741	—
Subordinated liabilities	—	9,609	28,828	153,752	551,876
Other financial liabilities	1,801,559	132,350	101,101	25,429	3,713
Total	32,748,415	2,814,024	5,257,631	3,889,737	556,394
Loan and other credit-related commitments	21,964,634	—	—	—	—
Financial guarantees and similar contracts	17,625,891	—	—	—	—
At 31 Dec 2023	72,338,940	2,814,024	5,257,631	3,889,737	556,394

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

Further discussion of the group's liquidity and funding management can be found in Note 31 'Risk management'.

28 Offsetting of financial assets and financial liabilities

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

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

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

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

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

	Amounts subject to enforceable netting arrangements						Amount not subject to enforceable netting arrange-ments	Total
				Amounts not set off in the balance sheet				
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments and Non-cash collateral[2]	Cash collateral	Net amount		
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Financial assets								
Derivatives (Note 13)	**845,789**	**—**	**845,789**	**(571,341)**	**(216,887)**	**57,561**	**107,104**	**952,893**
Reverse repos, stock borrowing and similar agreements classified as:	**7,545,465**	**—**	**7,545,465**	**(7,545,465)**	**—**	**—**	**332,745**	**7,878,210**
– non-trading assets	**7,545,465**	**—**	**7,545,465**	**(7,545,465)**	**—**	**—**	**332,745**	**7,878,210**
Loans and advances to customers excluding reverse repos at amortised cost[1]	**214,916**	**—**	**214,916**	**—**	**(75,144)**	**139,772**	**—**	**214,916**
At 31 Dec 2024	**8,606,170**	**—**	**8,606,170**	**(8,116,806)**	**(292,031)**	**197,333**	**439,849**	**9,046,019**
Derivatives (Note 13)	1,074,997	—	1,074,997	(698,261)	(350,163)	26,573	66,803	1,141,800
Reverse repos, stock borrowing and similar agreements classified as:	5,514,927	—	5,514,927	(5,514,927)	—	—	873,826	6,388,753
– non-trading assets	5,514,927	—	5,514,927	(5,514,927)	—	—	873,826	6,388,753
Loans and advances to customers excluding reverse repos at amortised cost[1]	248,418	—	248,418	—	(141,381)	107,037	—	248,418
At 31 Dec 2023	6,838,342	—	6,838,342	(6,213,188)	(491,544)	133,610	940,629	7,778,971
Financial liabilities								
Derivatives (Note 13)	**612,555**	**—**	**612,555**	**(571,341)**	**(23,008)**	**18,206**	**172,771**	**785,326**
Repurchase agreements - non trading	**2,936,075**	**—**	**2,936,075**	**(2,936,075)**	**—**	**—**	**—**	**2,936,075**
At 31 Dec 2024	**3,548,630**	**—**	**3,548,630**	**(3,507,416)**	**(23,008)**	**18,206**	**172,771**	**3,721,401**
Derivatives (Note 13)	739,687	—	739,687	(698,261)	(28,069)	13,357	323,572	1,063,259
Repurchase agreements - non trading	1,801,365	—	1,801,365	(1,801,365)	—	—	—	1,801,365
At 31 Dec 2023	2,541,052	—	2,541,052	(2,499,626)	(28,069)	13,357	323,572	2,864,624

1 At 31 December 2024, the total amount of 'Loans and advances to customers' was US$20,440m (2023: US$20,072m), of which US$215m (2023: US$248m) was subject to offsetting.
2 All financial instruments (whether recognised on our balance sheet or as non-cash collateral received or pledged) are presented within 'financial instruments, including non-cash collateral', as balance sheet classification has no effect on the rights of set-off associated with financial instruments.

29 Foreign exchange exposure

Structural foreign exchange exposures

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

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

The group's management of structural foreign currency exposures is discussed in Note 31 'Risk management'.

Net structural foreign currency exposures

Currency of structural exposure

	2024			2023		
	Structural foreign exchange exposures	Economic hedges-structural FX hedge[1]	Net structural foreign exchange exposures	Structural foreign exchange exposures	Economic hedges-structural FX hedge[1]	Net structural foreign exchange exposures
	US$000	US$000	US$000	US$000	US$000	US$000
Algerian dinar	**170,167**	**—**	**170,167**	170,108	—	170,108
Bahraini dinar	**180,120**	**—**	**180,120**	205,582	—	205,582
Kuwaiti dinar	**273,658**	**—**	**273,658**	299,007	—	299,007
Moroccan dirham	**152**	**—**	**152**	156	—	156
Omani riyal	**17,090**	**—**	**17,090**	—	—	—
Qatari riyal	**728,031**	**(299,273)**	**428,758**	833,633	(299,302)	534,331
UAE dirham	**5,263,981**	**(2,543,242)**	**2,720,739**	4,995,131	(2,761,324)	2,233,807
Total	**6,633,199**	**(2,842,515)**	**3,790,684**	6,503,617	(3,060,626)	3,442,991

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

30 Called up share capital and share premium

Authorised

The authorised ordinary share capital of the bank at 31 December 2024 was 1,500,000,000 (2023: 1,500,000,000) ordinary shares[1] of US$1.00 each.

Called up share capital and share premium

Issued and fully paid

	2024		2023	
	Number	**US$000**	Number	US$000
At 31 Dec[1]	**931,055,001**	**931,055**	931,055,001	931,055

Share premium

	2024	2023
	US$000	US$000
At 31 Dec	**61,346**	61,346

Total called up share capital and share premium

	2024	2023
	US$000	US$000
At 31 Dec	**992,401**	992,401

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

Other equity instruments

Undated preference shares

	2024	2023
	US$000	US$000
Undated preference shares	**—**	225,000
Perpetual Additional Tier 1 preference shares	**1,000,000**	750,000
Less: Issuance cost on Additional Tier 1 preference shares	**(10,000)**	(7,500)
At 31 Dec	**990,000**	967,500

Issued

Perpetual Additional Tier 1 preference shares

	Nominal value US$000	Dividend basis %	Mandatory redemption (maturity date)	First call date
Perpetual Additional Tier 1 preference shares (Semi- annual dividend)	**750,000**	**6.25**	**undated**	**April 2027**
Perpetual Additional Tier 1 preference shares (Quarterly dividend)	**250,000**	**USD SOFR CMP -5BD + 3.210**	**undated**	**March 2030**
At 31 Dec 2024	**1,000,000**			

1 The Perpetual Additional Tier 1 Preference shares have been issued at par value of US$1 per share.
2 In the event of a winding up, the preference shareholders would receive, in priority to the ordinary shareholders of the bank, repayment of US$1 per share, plus an amount equal to any accrued but unpaid dividends. With the exception of the above, the preference shares do not carry any right to participate in the surplus of assets on a winding up.

31 Risk management

Our approach to risk

Our risk management

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

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

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

Our risk management framework

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

Key components of our risk management framework

HSBC Values and risk culture

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

Risk culture

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

Risk governance and ownership

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

The Chief Risk and Compliance Officer ('CRCO') chairs the RMM of the Executive Committee. The membership of the Executive Committee ensures that the committee oversees risk management matters across the three lines of defence. The CRCO, who reports to the Chief Executive Officer ('CEO') and functionally to the Group CRCO in the HSBC Group, heads the Risk and Compliance Function, which is independent from the global businesses and forms part of the second line of defence.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures as described in the following commentary, 'Our responsibilities'. We use a defined and consistent executive risk governance structure to help ensure there is appropriate oversight and accountability of risk, which facilitates reporting and escalation to the Risk Management Meeting.

Risk appetite

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

– an alignment with our strategy, purpose, values, customer needs and HSBC Group Risk Appetite;
– trends highlighted in other risk reports;
– communication with risk stewards on the developing risk landscape;

- strength of our capital, liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk, and
- the level of available staff with the required competencies to manage risks.

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

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

Our Responsibilities

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

Three lines of defence

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

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

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

Risk and Compliance Function

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

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

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

Stress testing and recovery planning

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

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

Internal stress tests

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

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

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

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

Recovery and resolution plan

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

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

Key developments in 2024

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

- We enhanced our management of concentration risk at country and single customer group levels by implementing new frameworks to strengthen our control of risk appetite.
- We enhanced our processes, framework and reporting capabilities to improve the control and oversight of our material third parties, to help maintain our operational resilience and meet new and evolving regulatory requirements.
- We continued to make progress with our comprehensive regulatory reporting programme to strengthen our global processes, improve consistency and enhance controls.
- Through our climate risk programme, we continued to embed climate considerations, including through implementation of climate-related risk policies and processes along with regional inputs towards the annual climate risk materiality assessment across the Group. We continue to implement our climate risk programme to improve our processes and capabilities to better embed climate considerations throughout our organization.
- We deployed industry-leading technology and advanced analytics capabilities into new markets to improve our ability to identify suspicious activities and prevent financial crime.
- We continued to develop and enhance our electronic communication policies and standards to help enable escalations and follow-up actions which are focused on our most substantive issues. A group-wide approach on Corporate Device availability is being implemented in order to meet regulatory expectations.
- We are embedding our regulatory management ecosystem following the bank-wide rollout of regulatory horizon scanning capabilities and enhanced regulation mapping tooling.

Top and emerging risks

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

Our current top and emerging risks are described on page 72.

Credit risk

Credit risk management

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

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

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

The principal objectives of our credit risk management are:

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

IFRS 9 'Financial Instruments' Process

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

Concentration of exposure

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

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

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

Credit quality of financial instruments

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

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

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

Impairment assessment

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

Write-off of loans and advances

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

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

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

Summary of credit risk

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

The IFRS 9 allowance for ECL has decreased from US$706m at 31 December 2023 to US$584m at 31 December 2024.

The IFRS 9 allowance for ECL at 31 December 2024 comprises US$566m (2023: US$694m) in respect of assets held at amortised cost, US$1m (2023: US$3m) on debt instruments measured at fair value through other comprehensive income and US$17m (2023: US$9m) in respect of loan commitments and financial guarantees.

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

	31 Dec 2024		31 Dec 2023	
	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	**21,002,563**	**(562,408)**	20,759,342	(687,160)
Loans and advances to banks at amortised cost	**11,683,807**	**(1,517)**	8,082,899	(1,726)
Other financial assets measured at amortised costs	**14,505,155**	**(2,153)**	12,798,519	(5,097)
– cash and balances at central banks	**647,013**	**(24)**	911,620	(5)
– reverse repurchase agreements – non-trading	**7,878,210**	**—**	6,388,753	—
– financial investments	**4,665,916**	**(1,064)**	4,418,343	(588)
– prepayments, accrued income and other assets	**1,314,016**	**(1,065)**	1,079,803	(4,504)
Total gross carrying amount on-balance sheet	**47,191,525**	**(566,078)**	41,640,760	(693,983)
Loans and other credit related commitments	**11,325,525**	**(14,503)**	8,764,016	(8,597)
Financial guarantees	**2,227,829**	**(2,423)**	1,950,389	(556)
Total nominal amount off-balance sheet	**13,553,354**	**(16,926)**	10,714,405	(9,153)

	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	US$000	**US$000**	US$000	US$000
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**6,881,464**	**(1,483)**	5,946,895	(3,238)

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

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

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

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

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

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

	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	**19,054,403**	**1,056,954**	**887,619**	**3,587**	**21,002,563**	**(33,324)**	**(35,618)**	**(492,498)**	**(968)**	**(562,408)**
Loans and advances to banks at amortised cost	**11,632,068**	**51,739**	**—**	**—**	**11,683,807**	**(1,343)**	**(174)**	**—**	**—**	**(1,517)**
Other financial assets measured at amortised cost	**14,451,673**	**52,371**	**1,111**	**—**	**14,505,155**	**(1,836)**	**(209)**	**(108)**	**—**	**(2,153)**
Loan and other credit-related commitments	**11,001,176**	**297,633**	**26,716**	**—**	**11,325,525**	**(5,546)**	**(993)**	**(7,964)**	**—**	**(14,503)**
Financial guarantees	**2,180,013**	**38,251**	**9,565**	**—**	**2,227,829**	**(205)**	**(315)**	**(1,903)**	**—**	**(2,423)**
At 31 Dec 2024	**58,319,333**	**1,496,948**	**925,011**	**3,587**	**60,744,879**	**(42,254)**	**(37,309)**	**(502,473)**	**(968)**	**(583,004)**

	ECL coverage %				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	%	**%**	**%**	**%**	**%**
Loans and advances to customers at amortised cost	**0.2**	**3.4**	**55.5**	**27.0**	**2.7**
Loans and advances to banks at amortised cost	**—**	**0.3**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**—**	**0.4**	**9.7**	**—**	**—**
Loan and other credit-related commitments	**0.1**	**0.3**	**29.8**	**—**	**0.1**
Financial guarantees	**—**	**0.8**	**19.9**	**—**	**0.1**
At 31 Dec 2024	**0.1**	**2.5**	**54.3**	**27.0**	**1.0**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2023 (continued)

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Loans and advances to customers at amortised cost	18,030,066	1,785,470	940,776	3,030	20,759,342	(35,601)	(42,283)	(607,734)	(1,542)	(687,160)
Loans and advances to banks at amortised cost	7,874,187	208,712	—	—	8,082,899	(1,103)	(623)	—	—	(1,726)
Other financial assets measured at amortised cost	12,745,167	49,396	3,956	—	12,798,519	(1,535)	(158)	(3,404)	—	(5,097)
Loan and other credit related commitments	8,445,460	273,753	44,803	—	8,764,016	(4,986)	(531)	(3,080)	—	(8,597)
Financial guarantees	1,880,359	57,449	12,581	—	1,950,389	(220)	(281)	(55)	—	(556)
At 31 Dec 2023	48,975,239	2,374,780	1,002,116	3,030	52,355,165	(43,445)	(43,876)	(614,273)	(1,542)	(703,136)

	ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total
	%	%	%	%	%
Loans and advances to customers at amortised cost	0.2	2.4	64.6	50.9	3.3
Loans and advances to banks at amortised cost	—	0.3	—	—	—
Other financial assets measured at amortised cost	—	0.3	86.0	—	—
Loan and other credit related commitments	0.1	0.2	6.9	—	0.1
Financial guarantees	—	0.5	0.4	—	—
At 31 Dec 2023	0.1	1.8	61.3	50.9	1.3

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Methodology for Developing Forward Looking Economic Scenarios

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

Three of the scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and Downside scenarios are created with reference to forecast probability distributions for select markets that capture views of the entire range of economic 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.

Description of Consensus Economic Scenarios

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

Consensus Central scenario

	UAE	
	2024	2023
Coverage period for 2024: (2025Q1–2029Q4); 2023: (2024Q1–2028Q4)		
Probability (%)	**75**	75
GDP growth rate (%)		
2024: Annual average growth rate	**n/a**	3.7
2025: Annual average growth rate	**4.4**	4.0
2026: Annual average growth rate	**4.2**	3.8
2027: Annual average growth rate	**3.9**	3.4
2028: Annual average growth rate	**3.6**	3.4
2029: Annual average growth rate	**3.6**	N/A
5-year average	**3.9**	3.6
Oil price (US$/barrel)		
2024: Average oil price	**n/a**	79.6
2025: Average oil price	**70.8**	75.9
2026: Average oil price	**69.2**	73.0
2027: Average oil price	**68.3**	70.7
2028: Average oil price	**67.9**	70.7
2029: Average oil price	**67.9**	N/A
5-year average	**68.8**	74.0
House price growth rate (%)		
2024: Annual average growth rate	**n/a**	12.6
2025: Annual average growth rate	**9.3**	7.7
2026: Annual average growth rate	**5.1**	4.4
2027: Annual average growth rate	**3.6**	2.6
2028: Annual average growth rate	**1.8**	2.3
2029: Annual average growth rate	**1.3**	N/A
5-year average	**4.2**	5.9
Inflation rate (%)		
2024: Annual average rate	**n/a**	2.3
2025: Annual average rate	**2.1**	2.2
2026: Annual average rate	**1.9**	2.1
2027: Annual average rate	**1.8**	2.1
2028: Annual average rate	**1.9**	2.1
2029: Annual average rate	**1.8**	N/A
5-year average	**1.9**	2.1

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

Outer scenarios (less likely) - UAE

	2024		
	Consensus upside scenario	**Consensus downside scenario**	**Downside 2 scenario**
Probability (%)	**10**	**10**	**5**
GDP level (%)[1]	**28.9 (4Q29)**	**0.3 (1Q25)**	**(6.8) (2Q26)**
Oil price (US$)	**68.5 (1Q27)**	**67.9 (4Q28)**	**51.8 (3Q26)**
House price index (%)[1]	**26.1 (4Q29)**	**(0.4) (1Q25)**	**(13.2) (2Q27)**
Inflation rate (%)[2]	**0.6 (4Q25)**	**2.8 (1Q26)**	**3.7 (2Q25)**
	2023		
Probability (%)	10	10	5
GDP level (%)[1]	30.7 (4Q28)	1.4 (1Q24)	(4.9) (2Q25)
Oil price (US$)	79.7 (1Q24)	70.4 (4Q27)	58.2 (3Q25)
House price index (%)[1]	34.2 (4Q28)	0.3 (1Q24)	(2.9) (4Q25)
Inflation rate (%)[2]	1.4 (1Q25)	3.0 (1Q24)	3.5 (2Q24)

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

Economic scenarios sensitivity analysis of ECL estimates

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

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.

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

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

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

	UAE	
	2024	2023
	US$m	US$m
Reported ECL	**51**	32
Gross carrying/nominal amount	**58,909**	52,074
Consensus central scenario	**49**	32
Consensus upside scenario	**40**	30
Consensus downside scenario	**58**	34
Downside 2 scenario	**120**	40

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

How economic scenarios are reflected in the retail calculation of ECL

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

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

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

	UAE					
	Gross carrying amount	Reported ECL	Central scenario ECL	Upside scenario ECL	Downside scenario ECL	Downside 2 scenario ECL
At 31 Dec 2024	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Mortgages	**1,993**	**8**	**8**	**8**	**8**	**8**
Credit cards	**536**	**31**	**31**	**31**	**31**	**35**
Other	**688**	**17**	**17**	**17**	**17**	**19**
At 31 Dec 2023						
Mortgages	2,001	25	25	25	25	25
Credit cards	471	24	24	22	25	32
Other	721	20	20	19	21	28

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

Management judgemental adjustments

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

At 31 December 2024, there is a management adjustment overly in the wholesale portfolio of $27m (2023: Nil) and there is an overlay in the retail portfolio of $9m (2023: overlay of $18m).

Credit exposure

Maximum exposure to credit risk

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

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

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

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

Maximum exposure to credit risk

	2024			2023		
	Maximum exposure	Offset	Net	Maximum exposure	Offset	Net
	US$000	US$000	US$000	US$000	US$000	US$000
Loans and advances to customers held at amortised cost	**20,440,155**	**(75,144)**	**20,365,011**	20,072,182	(141,381)	19,930,801
Loans and advances to banks held at amortised cost	**11,682,290**	—	**11,682,290**	8,081,173	—	8,081,173
Other financial assets measured at amortised costs	**14,580,934**	**(739,784)**	**13,841,150**	12,866,766	(350,411)	12,516,355
– cash and balances at central banks	**646,989**	**—**	**646,989**	911,615	—	911,615
– reverse repurchase agreements – non-trading	**7,878,210**	**(739,784)**	**7,138,426**	6,388,753	(350,411)	6,038,342
– financial investments	**4,664,852**	**—**	**4,664,852**	4,417,755	—	4,417,755
– prepayments, accrued income and other assets	**1,390,883**	**—**	**1,390,883**	1,148,643	—	1,148,643
Derivatives	**952,893**	**(788,228)**	**164,665**	1,141,800	(1,048,424)	93,376
Total on-balance sheet	**47,656,272**	**(1,603,156)**	**46,053,116**	42,161,921	(1,540,216)	40,621,705
– financial guarantees and similar contracts	**19,072,721**	**—**	**19,072,721**	17,597,455	—	17,597,455
– loan and other credit-related commitments	**24,119,736**	**—**	**24,119,736**	21,956,037	—	21,956,037
Total off-balance sheet	**43,192,457**	**—**	**43,192,457**	39,553,492	—	39,553,492

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

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

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

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

	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 2024	**36,230,072**	**(41,910)**	**2,325,384**	**(43,718)**	**998,160**	**(610,869)**	**3,030**	**(1,542)**	**39,556,646**	**(698,039)**
Transfers of financial instruments:	**(988,970)**	**(15,541)**	**755,281**	**44,810**	**233,689**	**(29,269)**	**—**	**—**	**—**	**—**
– Transfers from Stage 1 to Stage 2	**(2,641,545)**	**4,469**	**2,641,545**	**(4,469)**	**—**	**—**	**—**	**—**	**—**	**—**
– Transfers from Stage 2 to Stage 1	**1,652,575**	**(20,010)**	**(1,652,575)**	**20,010**	**—**	**—**	**—**	**—**	**—**	**—**
– Transfers to Stage 3	**—**	**—**	**(245,553)**	**31,924**	**245,553**	**(31,924)**	**—**	**—**	**—**	**—**
– Transfers from Stage 3	**—**	**—**	**11,864**	**(2,655)**	**(11,864)**	**2,655**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**4,917**	**—**	**(4,974)**	**—**	**(111)**	**—**	**—**	**—**	**(168)**
New financial assets originated or purchased	**11,178,466**	**(16,609)**	**—**	**—**	**—**	**—**	**—**	**—**	**11,178,466**	**(16,609)**
Asset derecognised (including final repayments)	**(8,160,187)**	**6,657**	**(258,254)**	**7,917**	**(77,508)**	**43,100**	**—**	**—**	**(8,495,949)**	**57,674**
Changes to risk parameters- further lending/repayments (including changes in credit quality and model used)	**5,620,814**	**21,930**	**(1,377,452)**	**(41,057)**	**(53,144)**	**(69,292)**	**557**	**574**	**4,190,775**	**(87,845)**
Assets written off	**—**	**—**	**—**	**—**	**(177,094)**	**177,094**	**—**	**—**	**(177,094)**	**177,094**
Foreign exchange	**(12,535)**	**9**	**(382)**	**9**	**(203)**	**78**	**—**	**—**	**(13,120)**	**96**
Others	**—**	**129**	**—**	**(87)**	**—**	**(13,096)**	**—**	**—**	**—**	**(13,054)**
At 31 Dec 2024	**43,867,660**	**(40,418)**	**1,444,577**	**(37,100)**	**923,900**	**(502,365)**	**3,587**	**(968)**	**46,239,724**	**(580,851)**
ECL (charge)/release for the period	**—**	**16,895**	**—**	**(38,114)**	**—**	**(26,303)**	**—**	**574**	**—**	**(46,948)**
Recoveries	**—**	**—**	**—**	**—**	**—**	**14,036**	**—**	**—**	**—**	**14,036**
Others	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total ECL (charge)/ release for the period	**—**	**16,895**	**—**	**(38,114)**	**—**	**(12,267)**	**—**	**574**	**—**	**(32,912)**

	At 31 Dec 2024		Twelve months ended 31 Dec 2024
	Gross carrying/ nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	**46,239,724**	**(580,851)**	**(32,912)**
Other financial assets measured at amortised cost	**14,505,155**	**(2,153)**	**2,279**
Performance and other guarantees not considered for IFRS 9	**—**	**—**	**(168,876)**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	**60,744,879**	**(583,004)**	**(199,509)**
Debt instruments measured at FVOCI	**6,881,464**	**(1,483)**	**1,741**
Change in expected credit losses and other credit impairment charges	**—**	**(584,487)**	**(197,768)**

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2024 and that are still subject to enforcement activity is $137m.

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 $117m during the year from $698m at 31 December 2023 to $581m at 31 December 2024.

This decrease was primarily driven by:

– US$177m of assets written off; and

– US$58m due to assets derecognised.

These were partly offset by:

– US$88m relating to changes in risk parameters; and

– US$17m relating to new financial assets originated or purchased.

The ECL charge of $47m for the period presented in the previous table consist of $47m charge relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages.

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 2023 (continued)

	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:	(148,623)	(8,357)	(134,501)	39,263	283,124	(30,906)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(1,871,388)	11,507	1,871,388	(11,507)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	1,722,765	(19,864)	(1,722,765)	19,864	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(307,022)	35,380	307,022	(35,380)	—	—	—	—
– Transfers from Stage 3	—	—	23,898	(4,474)	(23,898)	4,474	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	9,879	—	(13,571)	—	(1,845)	—	—	—	(5,537)
New financial assets originated or purchased	12,256,029	(25,536)	—	—	—	—	—	—	12,256,029	(25,536)
Asset derecognised (including final repayments)	(13,170,294)	9,993	(146,289)	7,672	(40,516)	11,729	—	—	(13,357,099)	29,394
Changes to risk parameters– further lending/repayments (including changes in credit quality)	294,894	12,586	404,142	(16,930)	(31,280)	(100,202)	(647)	1,313	667,109	(103,233)
Assets written off	—	—	—	—	—	—	—	—	—	—
Foreign exchange	38,420	(30)	2,278	(12)	352	(233)	—	—	41,050	(275)
Others	44	(144)	17	90	(3)	(13,291)	—	—	58	(13,345)
At 31 Dec 2023	36,230,072	(41,910)	2,325,384	(43,718)	998,160	(610,869)	3,030	(1,542)	39,556,646	(698,039)
ECL (charge)/release for the period	—	6,922	—	(22,829)	—	(90,318)	—	1,313	—	(104,912)
Recoveries	—	—	—	—	—	18,747	—	—	—	18,747
Others	—	—	—	(214)	—	—	—	—	—	(214)
Total ECL (charge)/release for the period	—	6,922	—	(23,043)	—	(71,571)	—	1,313	—	(86,379)

	At 31 Dec 2023		Twelve months ended 31 Dec 2023
	Gross carrying/ nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	39,556,646	(698,039)	(86,379)
Other financial assets measured at amortised cost	12,798,519	(5,097)	(665)
Performance and other guarantees not considered for IFRS 9	—	—	(842)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	52,355,165	(703,136)	(87,886)
Debt instruments measured at FVOCI	5,946,895	(3,238)	(2,373)
Change in expected credit losses and other credit impairment charges	—	(706,374)	(90,259)

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2023 and that are still subject to enforcement activity is US$122m.

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

	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 2024	**30,917,916**	**(22,601)**	**1,921,478**	**(13,028)**	**950,297**	**(574,287)**	**3,030**	**(1,542)**	**33,792,721**	**(611,458)**
Transfers of financial instruments	**(1,154,343)**	**(10,726)**	**981,018**	**19,773**	**173,325**	**(9,047)**	**—**	**—**	**—**	**—**
– Transfers from Stage 1 to Stage 2	**(2,452,698)**	**1,976**	**2,452,698**	**(1,976)**	**—**	**—**	**—**	**—**	**—**	**—**
– Transfers from Stage 2 to Stage 1	**1,298,355**	**(12,702)**	**(1,298,355)**	**12,702**	**—**	**—**	**—**	**—**	**—**	**—**
– Transfers to Stage 3	**—**	**—**	**(173,340)**	**9,047**	**173,340**	**(9,047)**	**—**	**—**	**—**	**—**
– Transfers from Stage 3	**—**	**—**	**15**	**—**	**(15)**	**—**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**3,169**	**—**	**(2,706)**	**—**	**—**	**—**	**—**	**—**	**463**
New financial assets originated or purchased	**8,676,699**	**(7,321)**	**—**	**—**	**—**	**—**	**—**	**—**	**8,676,699**	**(7,321)**
Asset derecognised (including final repayments)	**(6,651,934)**	**772**	**(153,270)**	**106**	**(18,808)**	**9,898**	**—**	**—**	**(6,824,012)**	**10,776**
Changes to risk parameters- further lending/repayments (including changes in credit quality)	**5,962,254**	**10,913**	**(1,469,403)**	**(13,685)**	**(97,595)**	**(10,053)**	**557**	**574**	**4,395,813**	**(12,251)**
Assets written off	**—**	**—**	**—**	**—**	**(123,361)**	**123,361**	**—**	**—**	**(123,361)**	**123,361**
Foreign exchange	**(11,915)**	**7**	**(355)**	**5**	**(197)**	**74**	**—**	**—**	**(12,467)**	**86**
Others	**—**	**114**	**—**	**(87)**	**—**	**(12,323)**	**—**	**—**	**—**	**(12,296)**
At 31 Dec 2024	**37,738,677**	**(25,673)**	**1,279,468**	**(9,622)**	**883,661**	**(472,377)**	**3,587**	**(968)**	**39,905,393**	**(508,640)**
ECL (charge)/release for the period	**—**	**7,533**	**—**	**(16,285)**	**—**	**(155)**	**—**	**574**	**—**	**(8,333)**
Recoveries	**—**	**—**	**—**	**—**	**—**	**1,532**	**—**	**—**	**—**	**1,532**
Others	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total ECL (charge)/ release for the period	**—**	**7,533**	**—**	**(16,285)**	**—**	**1,377**	**—**	**574**	**—**	**(6,801)**

Wholesale lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2023 (continued)

	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	31,586,055	(13,379)	2,008,083	(25,068)	959,922	(684,745)	3,677	(2,855)	34,557,737	(726,047)
Transfers of financial instruments:	149,318	(1,725)	(400,949)	14,978	251,631	(13,253)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(1,374,689)	2,070	1,374,689	(2,070)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	1,524,007	(3,795)	(1,524,007)	3,795	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(253,545)	13,777	253,545	(13,777)	—	—	—	—
– Transfers from Stage 3	—	—	1,914	(524)	(1,914)	524	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	2,720	—	(2,741)	—	(1,713)	—	—	—	(1,734)
New financial assets originated or purchased	10,082,857	(5,587)	—	—	—	—	—	—	10,082,857	(5,587)
Asset derecognised (including final repayments)	(11,695,937)	716	(86,987)	31	(648)	80	—	—	(11,783,572)	827
Changes to risk parameters- further lending/repayments (including changes in credit quality)	759,923	(5,231)	399,056	(310)	(45,895)	(76,236)	(647)	1,313	1,112,437	(80,464)
Assets written off	—	—	—	—	(215,014)	215,014	—	—	(215,014)	215,014
Foreign exchange	35,701	(12)	2,258	(8)	304	(190)	—	—	38,263	(210)
Others	(1)	(103)	17	90	(3)	(13,244)	—	—	13	(13,257)
At 31 Dec 2023	30,917,916	(22,601)	1,921,478	(13,028)	950,297	(574,287)	3,030	(1,542)	33,792,721	(611,458)
ECL (charge)/release for the period	—	(7,382)	—	(3,020)	—	(77,869)	—	1,313	—	(86,958)
Recoveries	—	—	—	—	—	4,554	—	—	—	4,554
Others	—	—	—	(214)	—	—	—	—	—	(214)
Total ECL (charge)/release for the period	—	(7,382)	—	(3,234)	—	(73,315)	—	1,313	—	(82,618)

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

	Non-credit impaired				**Credit impaired**			
	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
At 1 Jan 2024	**5,312,156**	**(19,309)**	**403,906**	**(30,690)**	**47,863**	**(36,582)**	**5,763,925**	**(86,581)**
Transfers of financial instruments:	**165,373**	**(4,815)**	**(225,737)**	**25,037**	**60,364**	**(20,222)**	**—**	**—**
– Transfers from Stage 1 to Stage 2	**(188,847)**	**2,493**	**188,847**	**(2,493)**	**—**	**—**	**—**	**—**
– Transfers from Stage 2 to Stage 1	**354,220**	**(7,308)**	**(354,220)**	**7,308**	**—**	**—**	**—**	**—**
– Transfers to Stage 3	**—**	**—**	**(72,213)**	**22,877**	**72,213**	**(22,877)**	**—**	**—**
– Transfers from Stage 3	**—**	**—**	**11,849**	**(2,655)**	**(11,849)**	**2,655**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**1,748**	**—**	**(2,268)**	**—**	**(111)**	**—**	**(631)**
New financial assets originated or purchased	**2,501,767**	**(9,288)**	**—**	**—**	**—**	**—**	**2,501,767**	**(9,288)**
Asset derecognised (including final repayments)	**(1,508,253)**	**5,885**	**(104,984)**	**7,811**	**(58,700)**	**33,202**	**(1,671,937)**	**46,898**
Changes to risk parameters- further lending/ repayments (including changes in credit quality and model used)	**(341,440)**	**11,017**	**91,951**	**(27,372)**	**44,451**	**(59,239)**	**(205,038)**	**(75,594)**
Assets written off	**—**	**—**	**—**	**—**	**(53,733)**	**53,733**	**(53,733)**	**53,733**
Foreign exchange	**(620)**	**2**	**(27)**	**4**	**(6)**	**4**	**(653)**	**10**
Others	**—**	**15**	**—**	**—**	**—**	**(773)**	**—**	**(758)**
At 31 Dec 2024	**6,128,983**	**(14,745)**	**165,109**	**(27,478)**	**40,239**	**(29,988)**	**6,334,331**	**(72,211)**
ECL (charge)/release for the period	**—**	**9,362**	**—**	**(21,829)**	**—**	**(26,148)**	**—**	**(38,615)**
Recoveries	**—**	**—**	**—**	**—**	**—**	**12,504**	**—**	**12,504**
Others	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total ECL (charge)/release for the period	**—**	**9,362**	**—**	**(21,829)**	**—**	**(13,644)**	**—**	**(26,111)**

Personal lending – Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2023 (continued)

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2023	5,373,547	(26,922)	191,654	(35,162)	87,319	(52,134)	5,652,520	(114,218)
Transfers of financial instruments:	(297,941)	(6,632)	266,448	24,285	31,493	(17,653)	—	—
– Transfers from Stage 1 to Stage 2	(496,699)	9,437	496,699	(9,437)	—	—	—	—
– Transfers from Stage 2 to Stage 1	198,758	(16,069)	(198,758)	16,069	—	—	—	—
– Transfers to Stage 3	—	—	(53,477)	21,603	53,477	(21,603)	—	—
– Transfers from Stage 3		—	21,984	(3,950)	(21,984)	3,950	—	—
Net remeasurement of ECL arising from transfer of stage		7,159		(10,830)		(132)	—	(3,803)
New financial assets originated or purchased	2,173,172	(19,949)	—	—	—	—	2,173,172	(19,949)
Asset derecognised (including final repayments)	(1,474,357)	9,277	(59,302)	7,641	(39,868)	11,649	(1,573,527)	28,567
Changes to risk parameters- further lending/ repayments (including changes in credit quality)	(465,029)	17,817	5,086	(16,620)	14,615	(23,966)	(445,328)	(22,769)
Assets written off					(45,744)	45,744	(45,744)	45,744
Foreign exchange	2,719	(18)	20	(4)	48	(43)	2,787	(65)
Others	45	(41)			—	(47)	45	(88)
At 31 Dec 2023	5,312,156	(19,309)	403,906	(30,690)	47,863	(36,582)	5,763,925	(86,581)
ECL release/(charge) for the period	—	14,304	—	(19,809)	—	(12,449)	—	(17,954)
Recoveries	—	—	—	—	—	14,193	—	14,193
Others	—	—	—	—	—	—	—	—
Total ECL (charge)/release for the period	—	14,304	—	(19,809)	—	1,744	—	(3,761)

Credit quality of financial instruments

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

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

Credit quality classification

	Debt securities and other bills	**Wholesale lending**	**Retail lending**	
	External credit rating	**Internal credit rating**	**Internal credit rating[2]**	**12 month probability-weighted PD %**
Quality classification				
Strong	**A– and above**	**CRR[1]1 to CRR2**	**Band 1 and 2**	**0.000–0.500**
Good	**BBB+ to BBB–**	**CRR3**	**Band 3**	**0.501–1.500**
Satisfactory	**BB+ to B and unrated**	**CRR4 to CRR5**	**Band 4 and 5**	**1.501–20.000**
Sub-standard	**B– to C**	**CRR6 to CRR8**	**Band 6**	**20.001–99.999**
Impaired	**Default**	**CRR9 to CRR10**	**Band 7**	**100**

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

Quality classification definitions

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

Risk rating scales

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

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

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

Distribution of financial instruments by credit quality at 31 December 2024

	Gross carrying/notional amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-Standard	Credit impaired	Total		
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**9,045,332**	**5,017,397**	**5,756,621**	**292,007**	**891,206**	**21,002,563**	**(562,408)**	**20,440,155**
Loans and advances to banks held at amortised cost	**9,795,170**	**164,382**	**1,724,038**	**217**	**—**	**11,683,807**	**(1,517)**	**11,682,290**
Cash and balances at central banks	**569,900**	**74,840**	**2,273**	**—**	**—**	**647,013**	**(24)**	**646,989**
Reverse repurchase agreements – non-trading	**7,100,230**	**96,673**	**681,307**	**—**	**—**	**7,878,210**	**—**	**7,878,210**
Prepayments, accrued income and other assets	**180,797**	**360,357**	**751,334**	**20,417**	**1,111**	**1,314,016**	**(1,065)**	**1,312,951**
– endorsements and acceptances	**90,626**	**295,126**	**327,929**	**20,417**	**1,104**	**735,202**	**(742)**	**734,460**
– accrued income and other	**90,171**	**65,231**	**423,405**	**—**	**7**	**578,814**	**(323)**	**578,491**
Financial investments at amortised cost	**3,006,379**	**—**	**1,659,537**	**—**	**—**	**4,665,916**	**(1,064)**	**4,664,852**
Debt instruments measured at fair value through other comprehensive income[1]	**5,083,251**	**—**	**1,821,367**	**—**	**—**	**6,904,618**	**(1,483)**	**6,903,135**
Out-of-scope for IFRS 9								
Trading assets	**1,222,458**	**196,709**	**482,237**	**19,899**	**1,796**	**1,923,099**	—	**1,923,099**
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**—**	**5,487**	**5,042**	**—**	**—**	**10,529**	—	**10,529**
Derivatives	**915,006**	**15,130**	**22,325**	**434**	**—**	**952,895**	—	**952,895**
Total gross carrying amount on balance sheet	**36,918,523**	**5,930,975**	**12,906,081**	**332,974**	**894,113**	**56,982,666**	**(567,561)**	**56,415,105**
Percentage of total credit quality	**65%**	**10%**	**23%**	**1%**	**2%**	**100%**		
Loan and other credit related commitments	**6,719,394**	**2,290,203**	**2,276,389**	**12,823**	**26,716**	**11,325,525**	**(14,503)**	**11,311,022**
Financial guarantees	**1,783,368**	**204,936**	**220,047**	**9,913**	**9,565**	**2,227,829**	**(2,423)**	**2,225,406**
Total nominal amount off balance sheet	**8,502,762**	**2,495,139**	**2,496,436**	**22,736**	**36,281**	**13,553,354**	**(16,926)**	**13,536,428**
At 31 Dec 2024	**45,421,285**	**8,426,114**	**15,402,517**	**355,710**	**930,394**	**70,536,020**	**(584,487)**	**69,951,533**

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

Distribution of financial instruments by credit quality at 31 December 2023

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	10,155,314	3,386,301	5,774,216	499,705	943,806	20,759,342	(687,160)	20,072,182
Loans and advances to banks held at amortised cost	6,581,493	182,543	1,276,414	42,449	—	8,082,899	(1,726)	8,081,173
Cash and balances at central banks	879,458	32,162	—	—	—	911,620	(5)	911,615
Reverse repurchase agreements – non-trading	4,034,641	288,524	2,065,588	—	—	6,388,753	—	6,388,753
Prepayments, accrued income and other assets	154,846	197,416	694,299	29,286	3,956	1,079,803	(4,504)	1,075,299
– endorsements and acceptances	38,954	139,172	238,167	29,286	2,393	447,972	(2,170)	445,802
– accrued income and other	115,892	58,244	456,132	—	1,563	631,831	(2,334)	629,497
Financial investments at amortised cost	3,975,350	—	442,993	—	—	4,418,343	(588)	4,417,755
Debt instruments measured at fair value through other comprehensive income	4,632,611	—	1,348,267	—	—	5,980,878	(3,238)	5,977,640
Out-of-scope for IFRS 9								
Trading assets	1,266,473	154,505	340,632	13,768	4,082	1,779,460	—	1,779,460
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	5,465	4,649	—	—	10,114	—	10,114
Derivatives	1,101,033	13,427	27,091	249	—	1,141,800	—	1,141,800
Total gross carrying amount on balance sheet	32,781,219	4,260,343	11,974,149	585,457	951,844	50,553,012	(697,221)	49,855,791
Percentage of total credit quality	65%	8%	24%	1%	2%	100%		
Loan and other credit related commitments	5,442,821	1,753,563	1,392,198	130,631	44,803	8,764,016	(8,597)	8,755,419
Financial guarantees	1,569,466	158,623	183,952	25,767	12,581	1,950,389	(556)	1,949,833
Total nominal amount off balance sheet	7,012,287	1,912,186	1,576,150	156,398	57,384	10,714,405	(9,153)	10,705,252
At 31 Dec 2023	39,793,506	6,172,529	13,550,299	741,855	1,009,228	61,267,417	(706,374)	60,561,043

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

	Gross carrying/notional amount							
	Strong US$000	Good US$000	Satisfactory US$000	Sub-standard US$000	Credit impaired US$000	Total US$000	Allowance for ECL US$000	Net US$000
Gross carrying amount on balance sheet	34,781,059	5,713,649	12,396,477	312,641	892,317	54,096,143	(567,561)	53,528,582
Loans and advances to customers held at amortised cost	9,045,332	5,017,397	5,756,621	292,007	891,206	21,002,563	(562,408)	20,440,155
– stage 1	9,015,024	4,724,024	5,301,090	14,265	—	19,054,403	(33,324)	19,021,079
– stage 2	30,308	293,373	455,531	277,742	—	1,056,954	(35,618)	1,021,336
– stage 3	—	—	—	—	887,619	887,619	(492,498)	395,121
– POCI	—	—	—	—	3,587	3,587	(968)	2,619
Loans and advances to banks held at amortised cost	9,795,170	164,382	1,724,038	217	—	11,683,807	(1,517)	11,682,290
– stage 1	9,795,153	159,997	1,676,918	—	—	11,632,068	(1,343)	11,630,725
– stage 2	17	4,385	47,120	217	—	51,739	(174)	51,565
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised costs	10,857,306	531,870	3,094,451	20,417	1,111	14,505,155	(2,153)	14,503,002
– stage 1	10,857,281	531,521	3,059,336	3,535	—	14,451,673	(1,836)	14,449,837
– stage 2	25	349	35,115	16,882	—	52,371	(209)	52,162
– stage 3	—	—	—	—	1,111	1,111	(108)	1,003
– POCI	—	—	—	—	—	—	—	—
Debt instruments measured at fair value through other comprehensive income[1]	5,083,251	—	1,821,367	—	—	6,904,618	(1,483)	6,903,135
– stage 1	5,083,251	—	1,821,367	—	—	6,904,618	(1,483)	6,903,135
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Nominal amount off balance sheet	8,502,762	2,495,139	2,496,436	22,736	36,281	13,553,354	(16,926)	13,536,428
Loan and other credit-related commitments	6,719,394	2,290,203	2,276,389	12,823	26,716	11,325,525	(14,503)	11,311,022
– stage 1	6,682,640	2,250,870	2,064,210	3,456	—	11,001,176	(5,546)	10,995,630
– stage 2	36,754	39,333	212,179	9,367	—	297,633	(993)	296,640
– stage 3	—	—	—	—	26,716	26,716	(7,964)	18,752
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	1,783,368	204,936	220,047	9,913	9,565	2,227,829	(2,423)	2,225,406
– stage 1	1,783,354	203,711	192,595	353	—	2,180,013	(205)	2,179,808
– stage 2	14	1,225	27,452	9,560	—	38,251	(315)	37,936
– stage 3	—	—	—	—	9,565	9,565	(1,903)	7,662
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2024	43,283,821	8,208,788	14,892,913	335,377	928,598	67,649,497	(584,487)	67,065,010

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

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2023 (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Gross carrying amount on balance sheet	30,413,713	4,086,946	11,601,777	571,440	947,762	47,621,638	(697,221)	46,924,417
Loans and advances to customers held at amortised cost	10,155,314	3,386,301	5,774,216	499,705	943,806	20,759,342	(687,160)	20,072,182
– stage 1	9,832,230	3,010,041	5,063,112	124,683	—	18,030,066	(35,601)	17,994,465
– stage 2	323,084	376,260	711,104	375,022	—	1,785,470	(42,283)	1,743,187
– stage 3	—	—	—	—	940,776	940,776	(607,734)	333,042
– POCI	—	—	—	—	3,030	3,030	(1,542)	1,488
Loans and advances to banks held at amortised cost	6,581,493	182,543	1,276,414	42,449	—	8,082,899	(1,726)	8,081,173
– stage 1	6,581,493	182,543	1,087,758	22,393	—	7,874,187	(1,103)	7,873,084
– stage 2	—	—	188,656	20,056	—	208,712	(623)	208,089
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised costs	9,044,295	518,102	3,202,880	29,286	3,956	12,798,519	(5,097)	12,793,422
– stage 1	9,044,181	513,072	3,181,690	6,224	—	12,745,167	(1,535)	12,743,632
– stage 2	114	5,030	21,190	23,062	—	49,396	(158)	49,238
– stage 3	—	—	—	—	3,956	3,956	(3,404)	552
– POCI	—	—	—	—	—	—	—	—
Debt instruments measured at fair value through other comprehensive income	4,632,611	—	1,348,267	—	—	5,980,878	(3,238)	5,977,640
– stage 1	4,632,611	—	1,348,267	—	—	5,980,878	(3,238)	5,977,640
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Nominal amount off balance sheet	7,012,287	1,912,186	1,576,150	156,398	57,384	10,714,405	(9,153)	10,705,252
Loan and other credit-related commitments	5,442,821	1,753,563	1,392,198	130,631	44,803	8,764,016	(8,597)	8,755,419
– stage 1	5,381,076	1,722,672	1,321,182	20,530	—	8,445,460	(4,986)	8,440,474
– stage 2	61,745	30,891	71,016	110,101	—	273,753	(531)	273,222
– stage 3	—	—	—	—	44,803	44,803	(3,080)	41,723
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	1,569,466	158,623	183,952	25,767	12,581	1,950,389	(556)	1,949,833
– stage 1	1,569,452	151,841	158,737	329	—	1,880,359	(220)	1,880,139
– stage 2	14	6,782	25,215	25,438	—	57,449	(281)	57,168
– stage 3	—	—	—	—	12,581	12,581	(55)	12,526
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2023	37,426,000	5,999,132	13,177,927	727,838	1,005,146	58,336,043	(706,374)	57,629,669

Past due but not impaired gross financial instruments

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

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

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

Stage 2 days past due analysis

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD	Stage 2	1 to 29 DPD	30 and > DPD
	US$000	US$000	US$000	US$000	US$000	US$000	%	%	%
Loans and advances to customers held at amortised cost	**1,056,954**	**15,528**	**26,184**	**(35,618)**	**(3,638)**	**(6,410)**	**(3.4)**	**(23.4)**	**(24.5)**
– personal	**158,301**	**10,839**	**13,913**	**(29,335)**	**(3,629)**	**(6,355)**	**(18.5)**	**(33.5)**	**(45.7)**
– corporate and commercial	**898,647**	**4,689**	**12,265**	**(6,283)**	**(9)**	**(55)**	**(0.7)**	**(0.2)**	**(0.4)**
– non-bank financial institutions	**6**	**—**	**6**	**—**	**—**	**—**	**—**	**—**	**—**
Loans and advances to banks at amortised cost	**51,739**	**—**	**—**	**(174)**	**—**	**—**	**(0.3)**	**—**	**—**
Other financial assets measured at amortised cost	**52,371**	**1,479**	**3,618**	**(209)**	**—**	**(10)**	**(0.4)**	**—**	**(0.3)**
At 31 Dec 2024	**1,161,064**	**17,007**	**29,802**	**(36,001)**	**(3,638)**	**(6,420)**	**(3.1)**	**(21.4)**	**(21.5)**
Loans and advances to customers held at amortised cost	1,785,470	27,532	53,414	(42,283)	(3,056)	(6,993)	(2.4)	(11.1)	(13.1)
– personal	396,734	13,718	14,672	(32,547)	(2,693)	(6,575)	(8.2)	(19.6)	(44.8)
– corporate and commercial	1,388,736	13,814	38,742	(9,736)	(363)	(418)	(0.7)	(2.6)	(1.1)
– non-bank financial institutions	—	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	208,712	—	—	(623)	—	—	(0.3)	—	—
Other financial assets measured at amortised cost	49,396	286	321	(158)	—	(3)	(0.3)	—	—
At 31 Dec 2023	2,043,578	27,818	53,735	(43,064)	(3,056)	(6,996)	(2.1)	(11.0)	(13.0)

Credit-impaired loans

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

– contractual payments of either principal or interest are past due for more than 90 days;

– there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and

– the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Forborne loans and advances

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

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

Credit quality of forborne loans

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

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

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

Forborne loans and recognition of expected credit losses

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

Forborne loans and advances to customers by industry sector at 31 December 2024

	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Total forborne loans
	US$000	US$000	US$000	US$000	US$000
Stage 1	**—**	**—**	**—**	**—**	**—**
Stage 2	**1,574**	**2,300**	**5,765**	**—**	**9,639**
Stage 3	**8,842**	**14,664**	**433,625**	**3,113**	**460,244**
Forborne loans At 31 Dec 2024	**10,416**	**16,964**	**439,390**	**3,113**	**469,883**
Allowance for expected credit losses on forborne loans					**196,472**
Stage 1	—	—	—	—	—
Stage 2	6,162	1,243	23,766	—	31,171
Stage 3	7,984	18,400	441,561	3,115	471,060
Forborne loans At 31 Dec 2023	14,146	19,643	465,327	3,115	502,231
Allowance for expected credit losses on forborne loans					226,351

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

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
	Total	As a % of total gross loans
At 31 Dec 2024	US$000	%
Personal		
– residential mortgages	**2,095,346**	**10.0**
– other personal	**1,780,473**	**8.5**
	3,875,819	**18.5**
Corporate and commercial		
– commercial, industrial and international trade	**9,842,625**	**46.9**
– commercial real estate and other property-related	**2,140,093**	**10.2**
– government	**881,291**	**4.2**
– other corporate and commercial	**2,651,473**	**12.6**
	15,515,482	**73.9**
Financial		
– non-bank financial institutions	**1,611,262**	**7.7**
Total gross loans and advances to customers	**21,002,563**	**100.0**
Impaired loans		
– as a percentage of gross loans and advances to customers	**4.24%**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**2.68%**	
At 31 Dec 2023		
Personal		
– residential mortgages	1,978,486	9.5
– other personal	1,799,519	8.7
	3,778,005	18.2
Corporate and commercial		
– commercial, industrial and international trade	8,559,185	41.2
– commercial real estate and other property-related	2,470,899	11.9
– government	627,790	3.0
– other corporate and commercial	4,497,628	21.7
	16,155,502	77.8
Financial		
– non-bank financial institutions	825,835	4.0
Total gross loans and advances to customers	20,759,342	100.0
Impaired loans		
– as a percentage of gross loans and advances to customers	4.55%	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	3.31%	

Collateral and other credit enhancements held

Loans and advances held at amortised cost

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

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

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

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

	2024				2023			
	Gross carrying/nominal amount				Gross carrying/nominal amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	US$000	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000
Fully collateralised by LTV ratio	**2,043,925**	**40,100**	**9,024**	**2,093,049**	1,667,389	297,213	9,505	1,974,107
– less than 50%	**1,328,235**	**27,207**	**4,998**	**1,360,440**	960,535	164,937	3,857	1,129,329
– 51% to 70%	**535,138**	**9,440**	**3,069**	**547,647**	556,617	107,934	3,982	668,533
– 71% to 80%	**172,155**	**3,329**	**376**	**175,860**	139,973	22,316	958	163,247
– 81% to 90%	**5,422**	**—**	**581**	**6,003**	6,577	1,646	382	8,605
– 91% to 100%	**2,975**	**124**	**—**	**3,099**	3,687	380	326	4,393
Partially collateralised (A): LTV > 100%	**2,124**	**—**	**173**	**2,297**	1,809	1,366	1,500	4,675
– collateral value on A	**1,714**	**—**	**—**	**1,714**	1,396	850	936	3,182
Total at 31 Dec	**2,046,049**	**40,100**	**9,197**	**2,095,346**	1,669,198	298,579	11,005	1,978,782

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

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

Other personal lending

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

Collateral on loans and advances

Commercial real estate loans and advances

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

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

	2024					2023				
	Gross carrying/nominal amount					Gross carrying/nominal amount				
	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
Non Collateralised	**1,153,464**	**57**	**409**	**—**	**1,153,930**	845,016	200,997	25,962	—	1,071,975
Fully collateralised by LTV ratio	**275,307**	**—**	**116,803**	**—**	**392,110**	201,823	103	119,545	—	321,471
– less than 50%	**142,446**	**—**	**—**	**—**	**142,446**	35,405	103	—	—	35,508
– 51% to 75%	**66,510**	**—**	**34,523**	**—**	**101,033**	88,899	—	—	—	88,899
– 76% to 90%	**21,045**	**—**	**82,280**	**—**	**103,325**	77,519	—	35,546	—	113,065
– 91% to 100%	**45,306**	**—**	**—**	**—**	**45,306**	—	—	83,999	—	83,999
Partially collateralised (A): LTV > 100%	**240,754**	**—**	**—**	**—**	**240,754**	475,499	—	—	—	475,499
– collateral value on A	**130,081**	**—**	**—**	**—**	**130,081**	313,979	—	—	—	313,979
Total at at 31 Dec	**1,669,526**	**57**	**117,211**	**—**	**1,786,794**	1,522,338	201,100	145,507	—	1,868,945

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

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

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

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

	2024					2023				
	Gross carrying/nominal amount					Gross carrying/nominal amount				
	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
Non Collateralised	**32,201,052**	**990,826**	**497,386**	**769**	**33,690,033**	30,097,774	1,083,737	481,821	723	31,664,055
Fully collateralised by LTV ratio	**599,676**	**16,088**	**105,586**	**—**	**721,350**	1,022,876	78,384	103,082	—	1,204,342
– less than 50%	**486,183**	**10,190**	**92,035**	**—**	**588,408**	35,604	18,149	99,290	—	153,043
– 51% to 75%	**25,324**	**—**	**1,916**	**—**	**27,240**	28,030	56,486	915	—	85,431
– 76% to 90%	**60,549**	**3,414**	**—**	**—**	**63,963**	47,995	—	2,197	—	50,192
– 91% to 100%	**27,619**	**2,484**	**11,635**	**—**	**41,738**	911,247	3,749	680	—	915,676
Partially collateralised (A): LTV > 100%	**1,413,344**	**218,356**	**153,921**	**2,818**	**1,788,439**	1,224,509	186,305	214,214	2,308	1,627,336
– collateral value on A	**407,144**	**73,450**	**28,886**	**739**	**510,219**	263,677	28,632	51,867	261	344,437
Total at 31 Dec	**34,214,072**	**1,225,270**	**756,893**	**3,587**	**36,199,822**	32,345,159	1,348,426	799,117	3,031	34,495,733

Other credit risk exposures

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

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

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

Derivatives

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

Treasury Risk

Overview

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

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

Approach and policy

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

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

Governance and structure

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

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

Assessment and risk appetite

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

We aim to ensure that management has oversight of our liquidity and funding risks at Group and entity level through robust governance, in line with our risk management framework. We manage liquidity and funding risk at an operating entity level in accordance with consistent policies, procedures and reporting standards. This ensures that obligations can be met in a timely manner, in the jurisdiction where they fall due. Operating entities are required to meet internal minimum requirements and any applicable regulatory requirements at all times.

These requirements are assessed through the ILAAP, which ensures that operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, additionally an intraday add on is incorporated. The ILAAP informs the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively. These metrics are set and managed locally but are subject to robust review and challenge to ensure consistency of approach and application of the Group's policies and controls.

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

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

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

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

Banking net interest income sensitivity

BNII sensitivity captures the risk to earnings generated from the banking book from changes in market implied interest rates over a 12-month period using static rolling balance sheet assumptions.

The static rolling balance sheet assumption is in place to ensure that IRRBB management actions are focused on risks which can be managed within Treasury. A notable exception to this is related to the price sensitivity of certain interest bearing non-maturity deposits, where we apply dynamic assumptions to ensure we capture any potential margin widening or compression over the corresponding shock horizon and rate scenario.

As at 31 December 2024, the sensitivity of our earnings to an immediate 100bps parallel shock to interest rates is US$126m (2023: US$119m) for an upwards shock and US$134m (2023: US$151m) for a downwards shock. This assessment is based on a static balance sheet, no management actions from Treasury, and a 50% pass-on assumption on certain interest-bearing deposits.

Economic value of equity sensitivity

EVE measures the present value of our banking book assets and liabilities excluding equity, based on a run-off balance sheet. EVE sensitivity measures the impact to EVE from a movement in interest rates, including the assumed term profile of non-maturing deposits having adjusted for stability and price sensitivity. It is measured and reported as part of our internal risk metrics and regulatory rules (including the Supervisory Outlier Test).

Stress testing and recovery planning

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

Risks to capital and liquidity

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

Liquidity and Funding

Overview

At 31 December 2024, we were above regulatory minimum liquidity and funding levels. We maintain sufficient unencumbered liquid assets to comply with local and regulatory requirements. We further consider an internal liquidity metric, which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Management of Liquidity and Funding Risk

Liquidity coverage ratio ('LCR')

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

Net stable funding ratio ('NSFR')

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

Depositor concentration and wholesale market term funding maturity concentration

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

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

Liquid assets

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

Further details in respect of the group's Liquidity and Funding ratios are set out on page 73.

Primary sources of funding

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

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

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

Of total liabilities of US$51,863m at 31 December 2024, funding from customers amounted to US$34,828m, of which US$34,506m was contractually repayable within one year.

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

Assets available to meet these liabilities, and to cover outstanding commitments to lend (US$24,134m), included cash, central bank balances, items in the course of collection and financial investment with maturity of less than one year (US$4,458m); loans to banks (US$11,682m, including US$11,059m repayable within one year); and loans to customers (US$20,440m, including US$8,416m repayable within one year). In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

Market risk

Market risk management

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

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

Market risk measures

Monitoring and limiting market risk exposures

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

- sensitivity measures include sensitivity of net interest income and sensitivity for structural foreign exchange, which are used to monitor the market risk positions within each risk type;
- value at risk ('VaR') is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence; and

– in recognition of VaR's limitations the group augments VaR with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables.

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

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

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

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

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

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

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

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

Trading and non-trading portfolio
The following table provides an overview of the reporting of the risks within this section:

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

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

Value at risk of the trading and non-trading portfolio
The group VaR, both trading and non-trading, is below:

Value at risk

	2024	2023
	US$000	US$000
At 31 Dec	**8,033**	10,281
Average	**9,712**	11,462
Maximum	**14,862**	16,673
Minimum	**7,003**	7,811

Interest rate models, which serve as an input to the VaR, were re-calibrated in 2024 to reflect the significant upward shifts in global interest rates.

Trading portfolios

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

Market-making and position-taking is undertaken within MSS. The VaR for such trading intent activity at 31 December 2024 was US$3.2m (2023: US$4.8m).

VaR by risk type for the trading intent activities

	Foreign exchange (FX) US$000	Interest rate US$000	Credit spread US$000	Total US$000
At 31 Dec 2024[1]	**1,207**	**3,079**	**860**	**3,228**
Average	**1,630**	**3,876**	**616**	**4,354**
Maximum	**4,932**	**9,714**	**1,036**	**9,781**
Minimum	**185**	**1,883**	**282**	**2,340**
At 31 Dec 2023	471	4,601	584	4,842
Average	404	7,543	451	7,602
Maximum	745	12,340	1,140	12,347
Minimum	120	3,077	172	3,031

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

Non- trading portfolios

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

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

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

VaR by risk type for the non-trading activities

	Interest rate US$000	Credit spread US$000	Total US$000
At 31 Dec 2024	**6,293**	**752**	**6,354**
Average	**7,818**	**647**	**7,865**
Maximum	**10,408**	**845**	**10,608**
Minimum	**5,831**	**347**	**5,796**
At 31 Dec 2023	9,660	366	9,698
Average	9,722	477	9,795
Maximum	17,024	752	17,259
Minimum	6,769	321	6,575

Gap risk

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

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

The group incurred no material losses (2023: nil) arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2024.

De-peg risk

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

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

Structural foreign exchange exposures

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

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

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

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

Capital management

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

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

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

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

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

Further details in respect of the group's Capital requirement are set out on page 75.

32 Contingent liabilities, contractual commitments and guarantees

	2024	2023
	US$000	US$000
Guarantees and other contingent liabilities		
Guarantees	**19,277,379**	17,625,891
Commitments		
Documentary credits and short-term trade-related transactions	**1,097,610**	792,914
Undrawn formal standby facilities, credit lines and other commitments to lend	**23,036,628**	21,171,720
At 31 Dec	**24,134,238**	21,964,634

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

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

	2024	2023
	US$000	US$000
Guarantees and assets pledged by the bank as collateral security	**4,368,138**	3,778,843
Documentary credits and short-term trade-related transactions	**44,159**	45,196
At 31 Dec	**4,412,297**	3,824,039

Guarantees

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

	2024		2023	
	Guarantees in favour of third parties	**Guarantees by the group in favour of other HSBC Group entities**	Guarantees in favour of third parties	Guarantees by the group in favour of other HSBC Group entities
	US$000	**US$000**	US$000	US$000
Financial guarantees[1]	**704,076**	**1,523,753**	623,088	1,327,301
Performance and other guarantees[2]	**14,205,165**	**2,844,385**	13,223,960	2,451,542
At 31 Dec	**14,909,241**	**4,368,138**	13,847,048	3,778,843

1 Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due.

2 These guarantees are contracts that have similar features to financial guarantee contracts. The amounts disclosed in the above table are nominal principal amounts and reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

Other commitments

In addition to the commitments disclosed above, at 31 December 2024 the group had no capital commitments to purchase, within one year, land and building and other fixed assets (2023: nil).

Associates

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

33 Finance lease receivables

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

	2024			2023		
	Total future minimum payments	**Unearned finance income**	**Present value**	Total future minimum payments	Unearned finance income	Present value
	US$000	**US$000**	**US$000**	US$000	US$000	US$000
Lease receivables:						
– no later than one year	**4,219**	**(233)**	**3,986**	4,832	(951)	3,881
– later than one year and no later than five years	**7,960**	**(449)**	**7,511**	37,853	(1,229)	36,624
– later than five years	**—**	**—**	**—**	680	(23)	657
At 31 Dec	**12,179**	**(682)**	**11,497**	43,365	(2,203)	41,162

34 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2024. 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.

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 or provided banking services to customers alleged to have connections to terrorism financing. Seven actions, which seek damages for unspecified amounts, remain pending and HSBC's motions to dismiss have been granted in three of these cases. These dismissals are subject to appeals and/or the plaintiffs re-pleading their claims. The four other actions are at an early stage.

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

Other litigation

The group was named as one of the defendants in a lawsuit filed in the Courts of Dubai in the United Arab Emirates by a Jordanian company. The lawsuit sought damages from the defendants, including the group, in the amount of US$33m for losses allegedly suffered by the plaintiff arising out of a series of payments made between 2007 and 2009. In June 2024, the Court of Cassation awarded the plaintiff approximately US$39.7m in damages but later reversed its decision and ordered reconsideration. In November 2024, the Court of Cassation issued a new judgment, dismissing all claims against the group while upholding the liability of the other defendants. As the plaintiff has not filed any further challenge, this matter is now considered closed.

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 2023, following an appeal by the plaintiff, the Court of Cassation remanded the case to the Court of Appeal for reconsideration by a different panel of judges and in January 2024, the Court of Appeal decided to dismiss the plaintiff's appeal in its entirety. As the plaintiff has not filed any further appeal, this matter is now considered closed.

35 Related party transactions

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

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

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

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

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

Key Management Personnel

The emoluments of a number of the Key Management Personnel are paid by other HSBC Group companies who make no recharge to the group.

Transactions, arrangements and agreements including Key Management Personnel

Compensation of Key Management Personnel

	2024	2023
	US$000	US$000
Remuneration (wages and bonus)	**3,621**	6,847
Post-employment benefits	**95**	150
Share-based payments	**337**	2,723
Year ended 31 Dec	**4,053**	9,720

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

Transactions and balances during the year with Key Management Personnel

	2024		2023	
	Highest amounts outstanding during year	**Balance at 31 Dec**	Highest amounts outstanding during year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Key Management Personnel[1]				
Loans	**647**	**643**	640	640
Deposits	**7,053**	**4,135**	5,811	5,179
Credit cards	**271**	**69**	620	253

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

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

Transactions with other related parties

Associates

Transactions and balances during the year with associates

	2024		2023	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Amounts due to associates	**1,139**	**1,139**	1,352	1,334

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

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

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

	2024		2023	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Assets				
Other assets	**308**	**52**	828	491
Liabilities				
Other liabilities	**13,644**	**624**	13,274	1,103

	For the year ended 31 Dec 2024	For the year ended 31 Dec 2023
	US$000	US$000
Income statement		
Fee income	**240**	211
Other operating income	**89**	2,118
General and administrative expenses	**2,912**	3,287

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

	2024		2023	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Assets				
Derivatives	**1,001,769**	**738,991**	1,491,376	981,605
Loans and advances to banks (including reverse repos)	**1,767,875**	**1,448,194**	2,155,148	993,770
Other assets	**426,638**	**64,373**	277,569	67,412
Liabilities				
Trading liabilities	**1,083,698**	**584,017**	625,906	593,917
Deposits by banks	**4,316,812**	**4,316,812**	3,350,628	3,350,628
Derivatives	**772,722**	**537,016**	1,231,422	695,758
Subordinated amounts due	**945,751**	**945,751**	475,000	475,000
Other liabilities	**880,537**	**305,072**	530,009	384,257
Off-balance sheet				
Guarantees	**4,368,138**	**4,368,138**	4,316,736	3,778,843
Documentary credit and short-term trade-related transactions	**49,483**	**44,159**	185,667	45,197

	For the year ended 31 Dec 2024	For the year ended 31 Dec 2023
	US$000	US$000
Income Statement		
Interest income	**66,922**	50,977
Interest expense	**391,921**	299,714
Fee income	**66,530**	67,153
Fee expense	**35,749**	25,770
Other operating income	**71,002**	64,024
General and administrative expenses	**413,096**	377,205

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

36 Events after the balance sheet date

These accounts were approved by the Board of Directors on 19 February 2025 and authorised for issue.

Additional information

This section includes information that is required to be disclosed as part of our regulatory reporting obligations or that is relevant to a complete understanding of the group's Annual Report and Accounts 2024 and is provided in accordance with certain best practice disclosure principles. In particular, it provides further information on the group's current top and emerging risks, liquidity and funding ratios, and capital requirements and structure. It also includes information about how we do business. The information in this section is not audited.

Top and emerging risks

Our current top and emerging risks are as follows:

Externally driven

Geopolitical and Macroeconomic risks

Our operations and portfolios are exposed to risks from political instability, evolving trade policies, and regulatory changes. A recalibration of economic and trade policies is expected post recent election in various geographies including in US, and the uncertainty has increased, widening the distribution of economic risk. Recent ceasefire agreements involving Israel, Hezbollah, and Hamas have helped reduce the risk of escalating regional tensions. However, economic pressures on Iran are expected to persist, leading to continued volatility of oil prices. Disruptions in Red Sea shipping may ease if attacks subside, helping stabilize Egypt's Suez Canal revenues and reducing trade costs along the Asia-Europe corridor. Additionally, global trade and technology tensions are contributing to divergent regulatory standards, creating long-term strategic challenges for multinational businesses. We remain committed to complying with all applicable laws across jurisdictions while managing regulatory complexities. Our approach includes portfolio reviews, stress testing, and scenario analysis to mitigate risks and ensure resilience. Rigorous monitoring at the country level supports the reliability and appropriateness of our risk management strategies.

Environmental, social and governance ('ESG') risks

The group is subject to ESG risks, including in relation to climate change, nature and human rights. These risks have increased owing to the pace and volume of regulatory developments globally, signs of diverging national agendas, increasing frequency of severe weather events, which require careful monitoring, and may impact financial and non-financial risks due to stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial risks, including reputational, legal and regulatory compliance risks. Through our climate risk programme, we made progress on embedding climate considerations throughout our organisation, including through risk policy updates. We also developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis. We will continue to implement our climate risk programme to complete our annual materiality assessment and make changes to our policies, processes and capabilities to better embed climate considerations throughout our organisation.

Financial Crime risk environment

We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity. The financial crime risk environment is heightened due to increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and divergent nature of sanctions, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud. As a result, we will continue to face the possibility of regulatory enforcement, reputational risk and losses due to fraud. A number of Middle East countries have recently been and continue to be subject to a mutual evaluation review by the Financial Action Task Force ("FATF"). We are strengthening and investing in our financial crime, fraud and surveillance controls, to introduce next generation capabilities to protect both customers and the Group.

Evolving regulatory environment risk

The group keeps abreast of the rapidly evolving regulatory compliance and conduct agenda, which currently includes, but is not limited to: ESG matters; operational resilience; how digital and technology changes, including payments, are impacting financial institutions; how we are ensuring good customer outcomes, including addressing customer vulnerabilities; regulatory reporting; and employee compliance. We monitor regulatory developments closely and engage with regulators to help ensure new regulatory requirements are implemented effectively and in a timely way. We have continued to embed our regulatory management systems focused on horizon scanning, regulatory mapping, and regulatory content for our inventory.

Technology and Cyber Security Risk

We recognize the potential for service disruptions or data loss due to technology failures or cybersecurity threats. To address this, we continuously monitor technological advancements and the evolving threat landscape, including geopolitical and macroeconomic factors that may impact third-party risk management. As part of our commitment to resilience, we have a continuous improvement program in place to enhance the stability and security of our technology operations in an increasingly complex cyber environment. We invest in the reliability of our technology systems and critical services, ensuring that third-party providers uphold the same standards. Our approach prioritizes the protection of our customers, affiliates, and counterparties while minimizing service disruptions. By implementing robust business and technical controls, we proactively prevent, detect, manage, and recover from potential risks in a timely manner, aligning with our risk appetite.

Digitisation and technological advance risk

Developments in technology and changes in regulations continue to enable new entrants to the banking industry as well as new products and services offered by competitors. This challenges us to continue to innovate with new digital capabilities and evolve our products, to attract, retain and best serve our customers. Along with opportunities, new technology, including generative Artificial Intelligence, can introduce risks and disruption. We seek to ensure technology developments are managed with appropriate controls and oversight.

Internally driven

Data risk

We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. Ensuring accurate and timely data is essential to effectively serving our customers, maintaining operational resilience, and meeting regulatory requirements. Any inconsistencies or delays may pose challenges in these areas. Through our global data management framework, we proactively monitor the quality, availability and security of data that supports our customers and internal processes. We protect customer data via our data privacy framework, which establishes practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations. We continue to make improvements to our data policies and to our control framework to enhance the end-to-end management of data risk. We continue to modernise our data and analytics infrastructure through investments in Cloud technology, data visualisation, machine learning and artificial intelligence. We educate our employees on data risk and data management and have delivered global mandatory training on the importance of protecting data and managing data appropriately.

Risks arising from the receipt of services from third parties

We procure goods and services from a range of third parties. Due to the current macroeconomic and geopolitical climate, the risk of service disruption in our supply chain remains heightened. We continue to strengthen our controls, oversight and risk management policies and processes to select and manage third parties, including our third parties' own supply chains, particularly for key activities that could affect our operational resilience.

Change execution risk

Delivering change effectively is critical to achieving our strategy and enables us to meet rapidly evolving customer and stakeholder needs. We deliver complex change in line with established risk management processes, prioritising sustainable outcomes and understanding the associated risks. We focus on meeting industry and regulatory expectations and fulfilling our obligations to customers and clients and the marketplace we operate in.

Model Risk

We use models in both financial and nonfinancial contexts, as well as in a range of business applications. Evolving regulatory requirements are driving material changes to the way model risk is managed across the banking industry, with a particular focus on capital models. New technologies, including Artificial intelligence (AI) and generative AI, are driving a need for enhanced model risk controls. We continue to enhance our model risk framework in response to changes in regulation and external factors. AI and machine learning models remain a key focus. Progress has been made in enhancing governance activity in this area with particular focus on generative AI due to the pace of technological change and regulatory and wider interest in adoption and usage.

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

Our businesses, functions and countries are exposed to risks associated with employee retention and talent availability, changing skills requirements of our workforce, increasing our workforce nationalization requirements and compliance with employment laws and regulations. Attrition across the Group remains stable, but failure to manage these risks may impact the delivery of our strategic objectives or lead to regulatory sanctions or legal claims, and the risks are heightened during the current period of fundamental organizational change. We continue to invest in recruitment and retention of local nationals. Our Future Skills curriculum helps provide critical skills that will enable employees and HSBC to be successful in the future. We develop succession plans for key management roles, with actions agreed and reviewed on a regular basis by the Board.

Liquidity and Funding Ratios

As at 31 December 2024, HSBC Bank Middle East was above regulatory minimum levels for the LCR and NSFR metrics.

Liquidity coverage ratio ('LCR')

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile. The group DFSA-basis LCR at 31 December 2024, was 208%.

DFSA LCR

	2024	2023
	%	%
HSBC Bank Middle East Limited	**208**	206

Net stable funding ratio ('NSFR')

The group manages funding risk based on the DFSA's NSFR rules. The group DFSA-basis NSFR at 31 December 2024, was 146%.

DFSA NSFR

	2024	2023
	%	%
HSBC Bank Middle East Limited	146	136

Components of Net Stable Funding Ratio at 31 December 2024

		Unweighted value by residual maturity				
In currency amount (US$000)		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted values
ASF (available stable funds) Item						
1	**Capital**	—	—	—	6,266,725	6,266,725
2	Regulatory Capital[1]	—	—	—	6,266,725	6,266,725
3	Other capital	—	—	—	—	—
4	**Retail deposits/PSIAs and deposits/PSIAs from small business customers:**	—	15,831,210	—	—	14,260,885
5	Stable Deposits/PSIAs	—	255,921	—	—	243,125
6	Less stable deposits/PSIAs	—	15,575,289	—	—	14,017,760
7	**Wholesale funding:**	—	23,373,903	2,312,357	5,827,351	15,613,993
8	Operational deposits/operational accounts	—	7,712,709	—	—	3,856,355
9	Other wholesale funding	—	15,661,194	2,312,357	5,827,351	11,757,638
10	**Liabilities with matching interdependent assets**	—	—	—	—	—
11	**Other liabilities:**	—	2,018,809	2,799	26,130	27,529
12	NSFR derivative liabilities and net liabilities for Shari'a compliant hedging contracts	—	—	—	—	—
13	All other liabilities and equity not included in the above categories	—	2,018,809	2,799	26,130	27,529
14	**Total ASF**	—	41,223,922	2,315,156	12,120,206	36,169,132
RSF (Required stable funds) Item						
15	**Total NSFR high-quality liquid assets ('HQLA')**	—	5,813,035	782,861	7,670,846	499,744
16	**Deposits/PSIAs held at other financial institutions for operational purposes**	—	—	—	—	—
17	**Performing loans and securities (including Shari'a compliant securities):**	—	18,290,585	5,105,953	16,518,686	20,642,887
18	Performing loans to financial institutions secured by Level 1 HQLA	—	1,092,204	—	1,251,110	1,360,330
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	8,064,116	2,129,852	3,225,054	5,710,952
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, Central Banks and PSEs,	—	8,937,772	2,662,360	9,428,714	11,476,352
21	– of which: with a risk weight of less than or equal to 50%	—	694,578	198,408	2,994,895	2,393,175
22	Performing residential mortgages,	—	58,986	57,764	1,957,550	1,330,783
23	– of which: with a risk weight of less than or equal to 50%	—	58,986	57,764	1,957,550	1,330,783
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	—	137,507	255,977	656,258	764,470
25	**Assets with matching interdependent liabilities**	—	—	—	—	—
26	**Other Assets**	—	69,176	—	1,565,234	1,574,966
27	Physical traded commodities, including gold	—	—	—	—	—
28	Assets posted as initial margin for derivative contracts/Shari'a compliant hedging contracts and contributions to default funds of CCPs	—	—	—	—	—
29	NSFR derivative assets	—	—	—	180,551	180,551
30	NSFR derivative liabilities before deduction of variation margin posted	—	—	—	157,093	157,093
31	All other assets not included in the above categories	—	69,176	—	1,227,590	1,237,322
32	**Off-balance sheet items**	—	44,301,416	—	—	2,094,228
33	**Total RSF**	—	68,474,212	5,888,814	25,754,766	24,811,825
34	**Net Stable Funding Ratio (%)**					146

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

Components of Net Stable Funding Ratio at 31 December 2023 (continued)

In currency amount (US$000)		Unweighted value by residual maturity No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted values
ASF (available stable funds) Item						
1	Capital	—	—	—	6,087,442	6,087,442
2	Regulatory Capital	—	—	—	6,087,442	6,087,442
3	Other capital	—	—	—	—	—
4	Retail deposits/PSIAs and deposits/PSIAs from small business customers:	—	15,659,873	—	—	14,093,886
5	Stable Deposits/PSIAs	—	—	—	—	—
6	Less stable deposits/PSIAs	—	15,659,873	—	—	14,093,886
7	Wholesale funding:	—	19,577,809	1,865,437	4,103,027	12,234,870
8	Operational deposits/operational accounts		6,619,049	—	—	3,309,525
9	Other wholesale funding		12,958,760	1,865,437	4,103,027	8,925,345
10	Liabilities with matching interdependent assets	—	—	—	—	—
11	Other liabilities:	—	1,896,200	3,583	21,101	22,892
12	NSFR derivative liabilities and net liabilities for Shari'a compliant hedging contracts	—	—	—	—	—
13	All other liabilities and equity not included in the above categories	—	1,896,200	3,583	21,101	22,892
14	Total ASF	—	37,133,882	1,869,020	10,211,570	32,439,090
RSF (Required stable funds) Item						
15	Total NSFR high-quality liquid assets ('HQLA')	—	6,506,940	2,300,045	4,796,598	481,765
16	Deposits/PSIAs held at other financial institutions for operational purposes	—	—	—	—	—
17	Performing loans and securities (including Shari'a compliant securities):	—	11,821,030	5,843,691	16,301,198	19,657,684
18	Performing loans to financial institutions secured by Level 1 HQLA	—	371,983	—	1,256,576	1,293,774
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	5,585,788	2,474,957	3,109,176	5,184,522
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, Central Banks and PSEs,	—	5,599,448	3,263,915	9,711,448	11,455,820
21	– of which: with a risk weight of less than or equal to 50%	—	342,705	765,794	2,983,043	2,493,228
22	Performing residential mortgages,	—	51,331	57,546	1,798,481	1,223,451
23	– of which: with a risk weight of less than or equal to 50%	—	51,331	57,546	1,798,481	1,223,451
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	—	212,480	47,273	425,517	500,117
25	Assets with matching interdependent liabilities	—	—	—	—	—
26	Other Assets	—	126,278	—	1,731,344	1,772,719
27	Physical traded commodities, including gold	—	—	—	—	—
28	Assets posted as initial margin for derivative contracts/Shari'a compliant hedging contracts and contributions to default funds of CCPs	—	—	—	—	—
29	NSFR derivative assets	—	—	—	115,968	115,968
30	NSFR derivative liabilities before deduction of variation margin posted	—	—	—	212,652	212,652
31	All other assets not included in the above categories	—	126,278	—	1,402,724	1,444,099
32	Off-balance sheet items	—	40,251,622			1,877,657
33	Total RSF	—	58,705,870	8,143,736	22,829,140	23,789,825
34	Net Stable Funding Ratio (%)					136

Capital requirement

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

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

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

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

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

The PIB requires an authorised firm to:

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

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

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

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

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

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

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

At 31 December 2024, no prudential filter was applied as the Stage 1 and Stage 2 ECL provisions were lower compared to ECL provisions as at 31 December 2019.

Capital structure at 31 December (solo basis)

	2024 US$000	2023 US$000
Composition of regulatory capital		
Common Equity Tier 1 capital[1]	**4,011,723**	4,338,239
Additional Tier 1 capital	**990,000**	742,500
Total Tier 1 capital	**5,001,723**	5,080,739
Tier 2 capital	**992,811**	749,302
Total regulatory capital	**5,994,534**	5,830,041
Risk-weighted assets		
Credit and counterparty risk	**28,353,578**	26,667,779
Market risk	**1,782,887**	2,300,883
Operational risk	**4,199,320**	3,569,075
	34,335,785	32,537,737
Capital ratios		
Common Equity Tier 1 ratio (%)	**11.68**	13.33
Tier 1 ratio (%)	**14.57**	15.61
Capital adequacy ratio (%)	**17.46**	17.92
Leverage ratio (%)	**5.83**	6.73

1 Adjustments to/deductions from CET1 Capital.

	2024 US$000	2023 US$000
Other Intangible Assets	**265,025**	247,441
Deferred tax assets	**602**	—
Reserves	**9,950**	(2,350)

Financial statements for the bank

Financial statements for the bank are presented to ensure compliance with Article 54 of the Federal Corporate Income Tax Law requirements. Difference in the group and the bank financial statements is the data for subsidiary undertaking not included in the financial statements for the bank. The information in this section is not audited.

Income statement for the bank

for the year ended 31 December

	2024	2023
	US$000	US$000
Net interest income	1,589,905	1,551,226
– interest income	2,672,414	2,321,683
– interest expense	(1,082,509)	(770,457)
Net fee income	506,374	473,320
– fee income	690,286	610,848
– fee expense	(183,912)	(137,528)
Net income from financial instruments held for trading or managed on a fair value basis	330,609	396,485
Changes in fair value of designated debt and related derivatives	(14,730)	(16,739)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	4,844	1,305
Gains less losses from financial investments	1,108	(25,543)
Dividend income	58	58
Other operating income	84,155	43,148
Net operating income before change in expected credit losses and other credit impairment charges	2,502,323	2,423,260
Change in expected credit losses and other credit impairment charges	(197,768)	(90,259)
Net operating income	2,304,555	2,333,001
Employee compensation and benefits	(593,488)	(564,451)
General and administrative expenses	(501,981)	(451,872)
Depreciation and impairment of property, plant and equipment and right-of-use assets	(29,197)	(28,456)
Amortisation and impairment of intangible assets	(65,971)	(50,155)
Total operating expenses	(1,190,637)	(1,094,934)
Profit/(loss) before tax	1,113,918	1,238,067
Tax expense	(246,544)	(178,147)
Profit/(loss) for the year	867,374	1,059,920
Attributable to:		
– shareholder of the parent company	867,374	1,059,920
Profit/(loss) for the year	867,374	1,059,920

Statement of comprehensive income for the bank

for the year ended 31 December

	2024 US$000	2023 US$000
Profit for the year	**867,374**	1,059,920
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**8,899**	45,007
– fair value gains/(losses)	**11,537**	79,314
– fair value (gains)/losses transferred to the income statement on disposal	**(1,108)**	(25,543)
– expected credit losses recognised in income statement	**(1,741)**	2,373
– income taxes	**211**	(11,137)
Cash flow hedges	**(12,731)**	14,651
– fair value gains/(losses)	**(44,483)**	18,178
– fair value (gains)/losses reclassified to the income statement	**30,345**	(38)
– income taxes	**1,407**	(3,489)
Exchange differences	**(3,050)**	9,813
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit liability	**(15,940)**	77
Fair value gains/(losses) on equity instruments designated at fair value through other comprehensive income	**8,213**	4,392
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(5,570)**	(1,918)
Other comprehensive income/(expense) for the year, net of tax	**(20,179)**	72,022
Total comprehensive income/(expense) for the year	**847,195**	1,131,942
Attributable to:		
– shareholder of the parent company	**847,195**	1,131,942
Total comprehensive income/(expense) for the year	**847,195**	1,131,942

Statement of financial position for the bank

at 31 December

	2024	2023
	US$000	US$000
Assets		
Cash and balances at central banks	**646,989**	911,615
Trading assets	**1,923,099**	1,779,460
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**34,127**	32,630
Derivatives	**952,893**	1,141,800
Loans and advances to banks	**11,682,106**	8,080,985
Loans and advances to customers	**20,440,269**	20,072,265
Reverse repurchase agreements – non-trading	**7,878,210**	6,388,753
Financial investments	**11,592,083**	10,402,064
Prepayments, accrued income and other assets	**1,693,756**	1,452,806
Interests in associates	**630**	630
Intangible assets	**265,025**	247,441
Deferred tax assets	**120,359**	115,887
Total assets	**57,229,546**	50,626,336
Liabilities and equity		
Liabilities		
Deposits by banks	**6,499,507**	4,395,836
Customer accounts	**34,834,045**	31,371,711
Repurchase agreements – non-trading	**2,936,075**	1,801,365
Trading liabilities	**837,253**	807,757
Financial liabilities designated at fair value	**1,238,466**	1,429,282
Derivatives	**785,326**	1,063,259
Debt securities in issue	**808,480**	1,043,317
Accruals, deferred income and other liabilities	**2,512,906**	2,471,591
Current tax liabilities	**238,573**	163,539
Provisions	**233,764**	48,151
Subordinated liabilities	**945,751**	475,000
Total liabilities	**51,870,146**	45,070,808
Equity		
Called up share capital	**931,055**	931,055
Share premium account	**61,346**	61,346
Other equity instrument	**990,000**	967,500
Other reserves	**(210,589)**	(212,728)
Retained earnings	**3,587,588**	3,808,355
Total equity	**5,359,400**	5,555,528
Total liabilities and equity	**57,229,546**	50,626,336

Statement of cash flows for the bank

for the year ended 31 December

	2024	2023
	US$000	US$000
Cash flows from operating activities		
Profit/(loss) before tax	**1,113,918**	1,238,067
Adjustments for:		
Net (gain)/loss from investing activities	**(1,244)**	25,672
Depreciation, amortisation and impairment	**95,168**	78,617
Share-based payment expense	**15,736**	13,803
Change in expected credit losses gross of recoveries and other credit impairment charges	**213,900**	106,131
Provisions including pensions	**36,052**	29,408
Other non-cash items included in profit before tax	**(249,286)**	172,722
Elimination of exchange differences[1]	**30,185**	(16,402)
Changes in operating assets and liabilities		
Change in other assets	**(310,979)**	(305,674)
Change in net trading securities and derivatives	**(217,307)**	428,642
Change in loans and advances to banks and customers	**(1,202,456)**	(520,883)
Change in reverse repurchase agreements – non-trading	**(853,405)**	(2,284,907)
Change in financial assets designated at fair value	**(1,497)**	10,276
Change in other liabilities	**29,012**	407,226
Change in deposits by banks and customer accounts	**5,566,005**	1,244,622
Change in debt securities in issue	**(234,837)**	(27,103)
Change in financial liabilities designated at fair value	**(196,386)**	6,784
Change in repurchase agreements – non-trading	**1,134,710**	867,646
Tax paid	**(174,465)**	(65,861)
Net cash generated from/(used in) operating activities	**4,792,824**	1,408,786
Cash flows from investing activities		
Purchase of financial investments	**(9,203,758)**	(12,336,923)
Proceeds from the sale and maturity of financial investments	**8,196,899**	9,639,676
Net cash flows from the purchase and sale of property, plant and equipment	**(14,471)**	(19,491)
Net investment in intangible assets	**(83,685)**	(96,612)
Net cash generated from/(used) in investing activities	**(1,105,015)**	(2,813,350)
Cash flows from financing activities		
Issue of other equity instruments	**250,000**	—
Redemption of other equity instruments	**(225,000)**	—
Subordinated loan capital issued	**(475,000)**	—
Subordinated loan capital repaid	**945,751**	—
Dividends paid	**(1,066,010)**	(1,016,275)
Net cash generated from/(used in) financing activities	**(570,259)**	(1,016,275)
Net increase in cash and cash equivalents	**3,117,550**	(2,420,839)
Cash and cash equivalents at 1 Jan	**7,026,452**	9,432,036
Exchange differences in respect of cash and cash equivalents	**(14,481)**	15,255
Cash and cash equivalents at 31 Dec	**10,129,521**	7,026,452
Cash and cash equivalents comprise:		
– Cash and balances at central banks	**646,989**	911,615
– Loans and advances to banks of one month or less	**8,285,094**	5,473,943
– Reverse repurchase agreement with banks of one month or less	**1,024,575**	388,523
– Cash collateral, net settlement accounts and items in course of collection from/transition to other banks	**(197,710)**	(180,161)
– Treasury bills, other bills and certificates of deposit of less than three months	**370,573**	432,532
Total cash and cash equivalents	**10,129,521**	7,026,452

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.

Statement of changes in equity for the bank

for the year ended 31 December

				Other reserves				
	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Financial assets at FVOCI reserves	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves[1]	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2024	**992,401**	**967,500**	**3,808,355**	**(57,558)**	**2,463**	**(142,280)**	**(15,353)**	**5,555,528**
Profit/(loss) for the year	—	—	**867,374**	—	—	—	—	**867,374**
Other comprehensive income/(expense) – net of tax	—	—	**(22,319)**	**17,065**	**(12,731)**	**(2,194)**	—	**(20,179)**
– debt instruments at fair value through other comprehensive income	—	—	—	**8,899**	—	—	—	**8,899**
– equity instruments designated at fair value through other comprehensive income	—	—	—	**8,213**	—	—	—	**8,213**
– cash flow hedges	—	—	—	—	**(12,731)**	—	—	**(12,731)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	**(5,570)**	—	—	—	—	**(5,570)**
– remeasurement of defined benefit asset/liability	—	—	**(15,940)**	—	—	—	—	**(15,940)**
– exchange differences	—	—	**(809)**	**(47)**	—	**(2,194)**	—	**(3,050)**
Total comprehensive income for the year	—	—	**845,055**	**17,065**	**(12,731)**	**(2,194)**	—	**847,195**
New issuance	—	**250,000**	—	—	—	—	—	**250,000**
Dividends	—	—	**(1,066,010)**	—	—	—	—	**(1,066,010)**
Redemption of securities	—	**(225,000)**						**(225,000)**
Other movements	—	**(2,500)**	**188**	**(1)**	—	—	—	**(2,313)**
At 31 Dec 2024	**992,401**	**990,000**	**3,587,588**	**(40,494)**	**(10,268)**	**(144,474)**	**(15,353)**	**5,359,400**
At 1 Jan 2023	992,401	967,500	3,776,217	(106,932)	(12,188)	(150,000)	(15,353)	5,480,425
Profit/(loss) for the year	—	—	1,059,920	—	—	—	—	1,059,920
Other comprehensive income/(expense) – net of tax	—	—	277	49,374	14,651	7,720	—	72,022
– debt instruments at fair value through other comprehensive income	—	—	—	45,007	—	—	—	45,007
– equity instruments designated at fair value through other comprehensive income	—	—	—	4,392	—	—	—	4,392
– cash flow hedges	—	—	—	—	14,651	—	—	14,651
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	(1,918)	—	—	—	—	(1,918)
– remeasurement of defined benefit asset/liability	—	—	77	—	—	—	—	77
– exchange differences	—	—	2,118	(25)	—	7,720	—	9,813
Total comprehensive loss for the year	—	—	1,060,197	49,374	14,651	7,720	—	1,131,942
New Issuance	—	—	—	—	—	—	—	—
Dividends	—	—	(1,016,275)	—	—	—	—	(1,016,275)
Other movements	—	—	(11,784)	—	—	—	—	(11,784)
At 31 Dec 2023	992,401	967,500	3,808,355	(57,558)	2,463	(142,280)	(15,353)	5,555,528

HSBC Bank Middle East Limited

Head Office

Level 4, Gate Precinct Building No. 2,

Dubai International Financial Centre (DIFC)

PO Box 30444, Dubai, UAE

Middle East Management Office

HSBC Tower

Downtown

P O Box 66

Dubai, UAE

ALGERIA

Oriental Business Park branch

Oran branch

BAHRAIN

Seef – Main Branch

Adliya Branch

KUWAIT

Kuwait City – Sharq Area

QATAR

Doha – Airport Road (Main Branch)

Doha – City Centre

Doha – Lusail

Doha - Msheireb

UNITED ARAB EMIRATES

Abu Dhabi – Old Airport Road

Dubai – Dubai Festival City Mall

Dubai – Bur Dubai

Dubai – Jumeirah

Jebel Ali – Free Trade Zone

Fujairah – Hamad Bin Abdulla St

Ras Al Khaimah – Al Dhait

Sharjah – King Faisal Road

4 Customer Service Units and 2 Management Offices

OMAN

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Principal Subsidiary Companies

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HSBC Bank Middle East Representative Office Morocco S.A.R.L.

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MENA Infrastructure Fund (GP) Limited

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HSBC BANK MIDDLE EAST LIMITED
Incorporated in the Dubai International Financial Centre number – 2199

Regulated by the Dubai Financial Services Authority.

REGISTERED OFFICE
Level 4, Gate Precinct Building No. 2, Dubai International Financial Centre, Dubai, United Arab Emirates.

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HSBC Bank Middle East Limited

Level 4, Gate Precinct Building 2
Dubai International Financial Centre
P.O. Box 30444, Dubai, United Arab Emirates
Telephone: 971 456 23465
www.hsbc.ae