HSBC Bank Middle East Limited

Annual Report and Accounts 2020

HSBC

Contents

Presentation of Information

This document comprises the *Annual Report and Accounts 2020* for HSBC Bank Middle East Limited ('the bank') and its subsidiary undertakings (together 'the group'). It contains the Report of the Directors, Financial Statements together with the Auditor's report and Additional information. References to 'HSBC' or 'the HSBC Group 'or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Board of Directors

David Eldon, Chairman
Martin Tricaud, Deputy Chairman
Muna Al Gurg
Amina Alrustamani
David Dew
John Raine
Neslihan Erkazanci
John Bartlett
Christopher Spooner
Stephen Moss

Change in Directors

- Muna Al Gurg appointed as a Director on 16 July 2020.
- Stephen C Moss appointed as a Director on 22 October 2020.
- Dr. Raja Al Gurg resigned as a Director on 11 February 2020.

On 22 February 2021, the HSBC Group announced a change to its senior management team in the Middle East, North Africa and Turkey region. This change is subject to regulatory approval.

Principal activities

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

Attributable profit and dividends

The loss attributable to the shareholders of the parent company amounted to US$86m (profit in 2019: US$554m) as set out in the consolidated income statement on page 8.

No dividends were declared during the year (2019: US$200m).

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 1, Gate Village Building 8, 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

J A Tothill

Secretary

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material aspects, the consolidated financial position of HSBC Bank Middle East Limited (the 'Company') and its subsidiaries (together the 'group') as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

What we have audited

The group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Group scoping	The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of the components and other qualitative factors.
Materiality	Overall group materiality: USD 22.7 million, which represents 5% of the average of the absolute value profit or loss of the current year and the prior two financial years as a benchmark for calculating our overall group materiality.
Key audit matters	The key audit matters identified during the year are: • Expected credit losses - Impairment on loans and advances to customers • IT access management

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 in which the group operates.

Given the geographically dispersed nature of the group's operations in the Middle East and North Africa and the diversity of its banking activities, our approach was designed to cover each of the significant locations, being the United Arab Emirates ('UAE') and Qatar. We audited the operations of the group in the UAE and instructed a PwC member firm to perform work and issue an audit opinion to us in respect of the group's operations in Qatar. Each location that was not individually significant was assessed for any significant risks or material balances and, where appropriate, we instructed PwC member firms in those locations to perform and report on specific procedures relating to matters which were judgmental in nature and/or material to the overall group. The work in these locations was carried out by applying standard benchmarks on materiality and reflected the size and complexity of the operations in those locations.

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PricewaterhouseCoopers Limited is registered with the Dubai Financial Services Authority.

Our audit approach (continued)

How we tailored our group audit scope (continued)

A significant amount of the group's operational processes which are critical to financial reporting are undertaken in shared service centres run by HSBC Operations Services and Technology (HOST) across 11 individual locations. The audit work over the shared service centre processes and controls was performed by PwC member firms in each of the global shared service centre locations and coordinated by the PwC member firm in the UK, with oversight from us. This work enabled us to evaluate the effectiveness of the controls over key processes that supported material balances, classes of transactions and disclosures within the group consolidated financial statements, and to consider the implications on our audit work.

In aggregate, the audit work performed across the locations above provided us with the audit evidence required to form an opinion on the group consolidated financial statements.

Materiality

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

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

Overall group materiality	USD 22.7 million
How we determined it	We are using the average of the absolute value profit or loss of the current year and the prior two financial years as a benchmark for calculating our overall group materiality.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above USD 1.1 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 our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters 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.

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 due to the materiality of the loan balances and the associated allowances for ECL. In addition, the compliance with IFRS in this area requires considerable judgement and is subject to a high degree of estimation uncertainty, both of which have increased as a result of Covid-19. As disclosed in note 31, as at 31 December 2020, the group has recognised an allowance for ECL for loans and advances to customers of USD 1,346 million. The largest loan portfolios and significant ECL allowances are in the UAE, Qatar and Bahrain. There are a number of significant judgements which are required in measuring ECL, including: • the application and determination of forward looking economic scenarios; • determining the criteria for a significant increase in credit risk ('SICR'); • the recoverability of credit impaired wholesale exposures; and • techniques used to determine the Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD'). The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions that vary across countries and industry sectors. Covid-19 related government support programmes and regulatory interventions have impacted economic factors such as GDP and the oil price, and consequently the extent and timing of customer defaults.	We assessed the design of governance and controls over the estimation of ECLs, as well as testing how effectively they operated. We tested the controls over the inputs of critical data into source systems, and the flow and transfer of data between source systems to the impairment calculation engine. We attended management's review and challenge governance forums where we observed assessment of model limitations and approval of any resulting adjustments to modelled outcomes or their replacement with ECLs based on management's judgements. We involved our modelling experts in assessing the appropriateness of modelling methodologies that were redeveloped during the year. We also assessed the appropriateness of modelling methodologies that did not change during the year, focusing specifically on Covid-19 considerations and whether post model adjustments were needed. In addition, we performed testing over: • a sample of critical data used in the year end ECL calculation and to estimate management's judgemental adjustments; • critical data, assumptions and discounted cash flows for a sample of credit impaired wholesale exposures; • a sample of credit reviews to determine that Credit Risk Ratings were appropriately applied to wholesale exposures including the impact of customer payment holidays on ECL staging.

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	
These factors have increased the uncertainty around judgements made in determining the severity and likelihood of macroeconomic variable (MEV) forecasts across the different economic scenarios used in ECL models. Furthermore, these conditions are outside the bounds of historical experience used to develop the models, therefore resulting in greater limitations on their reliability to estimate ECLs. The impact of economic support and relief measurement programmes have been incorporated in the measurement of ECL including the impact of payment deferrals on staging. Management has made adjustments to ECL to address these limitations through judgemental adjustments to modelled outcomes. The nature and extent of these limitations and the resulting changes to ECL varies across retail and wholesale portfolios. In addition, certain models have been redeveloped during 2020. The uncertainty caused by Covid-19 also increases judgement involved in estimating expected cash flows and collateral valuations for specific impairments on credit impaired wholesale exposures.	Further, we obtained reporting from our PwC member firm in the UK containing the results of certain centralised audit procedures in respect of ECL. We reviewed the reporting received in the context of the appropriateness of the nature, timing and extent of the work performed for the purpose of our audit. Their work included the following procedures: • the compliance of ECL methodologies and assumptions with the requirements of IFRS 9; • testing of model validation and monitoring controls; • observing the review and challenge governance forum's discussions around the determination of MEV forecasts and their likelihood for different economic scenarios; • testing of the calculation and approval of management judgemental adjustments to modelled outcomes; and • assessment of the reasonableness and likelihood of the economic scenarios using the PwC UK member firm's economic experts. We assessed the disclosures included in the consolidated financial statements and assessed their compliance with the requirements of IFRS.

Key audit matter	How our audit addressed the key audit matter
IT access management	
HSBC has operations across a number of countries supporting a wide range of products and services, resulting in an IT environment that is large and complex. Financial reporting processes of the group rely on this IT environment, both within finance as well as the business and operations more broadly. Access management controls are an important part of the IT environment to ensure both access and changes made to systems and data are appropriate. Our audit approach planned to rely extensively on the effectiveness of controls over IT access management tested by our PwC member firm in the UK. As in previous years, our PwC member firm in the UK identified control deficiencies in relation to IT access management for systems and data relevant to financial reporting. Consequently, we have performed additional audit procedures around compensating manual controls. Management has an ongoing remediation programme to address these matters.	We obtained reporting from our PwC member firm in the UK on the results of work performed by them and other PwC member firms in relation to group-wide systems used by the HSBC group. We reviewed the reporting received and work performed and concluded that the nature, timing and extent of work performed was appropriate for the purposes of our audit. The reporting included the results of the testing of access rights over applications, operating systems and databases relied upon for financial reporting. Specifically, the PwC member firm in the UK tested: • authorising of new access requests; • the timely removal of access rights; • periodic monitoring of the appropriateness of access rights to systems and data; • restriction of highly privileged access to appropriate personnel; • accuracy of information about IT users to facilitate access management; • segregation of access across IT and business functions; • changes made to systems and data; and • understanding and assessing reliance on third parties, including Service Organisation controls reports. Other areas that were independently assessed included password policies and system configurations, and substantive audit procedures in relation to access right removal, privileged access, IT user information and segregation of duties were performed. Where control deficiencies were identified, a range of other procedures were performed which included obtaining appropriate reporting from our PwC member firm in the UK on the work performed by them and other PwC member firms. We reviewed the reporting received and the additional work performed and considered the nature, timing and extent of testing to be appropriate for the purposes of our audit. Their work included the following procedures: • where inappropriate access was identified by our PwC member firm in the UK, they performed procedures to understand and assess the nature of the access, and where possible, obtained additional evidence on the appropriateness of activities performed; and; • where necessary, they identified and tested compensating business controls and performed other audit procedures that addressed the risk that inappropriate changes were made to systems and data. In addition to the above, we performed the following audit procedures: • for systems impacted by control deficiencies relating to inappropriate access or segregation of duties, we tested compensating manual controls and where needed performed appropriate substantive procedures.

Other information

The directors are responsible for the other information. The other information comprises the Report of the Directors and Additional information on page 74 - 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 and will not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

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

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

Report on legal and other regulatory requirements

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

PricewaterhouseCoopers Limited

23 February 2021

Stuart Scoular

Audit Principal,Refernce Number I013742

Dubai, United Arab Emirates

Consolidated income statement

for the year ended 31 December

	Notes	2020 US$000	2019 US$000
Net interest income		**777,595**	974,440
– interest income		**961,697**	1,277,600
– interest expense		**(184,102)**	(303,160)
Net fee income	3	**421,050**	453,515
– fee income		**503,098**	568,101
– fee expense		**(82,048)**	(114,586)
Net income from financial instruments held for trading or managed on a fair value basis		**237,139**	212,754
Changes in fair value of designated debt and related derivatives	4	**(6,346)**	4,016
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**(96)**	(996)
Gains less losses from financial investments		**9,538**	164
Dividend income		**288**	363
Other operating income, net		**56,881**	55,423
Net operating income before change in expected credit losses and other credit impairment charges		**1,496,049**	1,699,679
Change in expected credit losses and other credit impairment charges	5	**(638,271)**	(99,990)
Net operating income		**857,778**	1,599,689
Employee compensation and benefits	6	**(540,881)**	(575,113)
General and administrative expenses		**(339,633)**	(335,353)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(34,430)**	(34,878)
Amortisation and impairment of intangible assets		**(18,145)**	(9,753)
Total operating expenses		**(933,089)**	(955,097)
Operating profit/(loss)	5	**(75,311)**	644,592
Share of profit/(loss) in associates	17	**(207)**	651
Profit/(loss) before tax		**(75,518)**	645,243
Tax expense	8	**(10,541)**	(90,686)
Profit/(loss) for the year		**(86,059)**	554,557
Attributable to:			
– shareholders of the parent company		**(86,083)**	554,459
– non-controlling interests		**24**	98
Profit/(loss) for the year		**(86,059)**	554,557

The accompanying notes on pages 13 to 73 form an integral part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December

	2020 US$000	2019 US$000
Profit/(loss) for the year	**(86,059)**	554,557
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	**15,494**	33,001
– fair value gains	**7,204**	34,691
– fair value gains/(losses) transferred to the income statement on disposal	**9,066**	(424)
– expected credit losses recognised in income statement	**1,292**	373
– income taxes	**(2,068)**	(1,639)
Cash flow hedges	**3,722**	39,966
– fair value gains	**4,287**	44,413
– income taxes	**(565)**	(4,447)
Exchange differences	**(23,022)**	(2,129)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**7,070**	19,368
– before income taxes	**11,481**	28,116
– income taxes	**(4,411)**	(8,748)
Equity instruments designated at fair value through other comprehensive income	**(7,480)**	5,972
– fair value gains/(losses)	**(7,480)**	5,972
– income taxes	**—**	—
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(3,639)**	(6,430)
– fair value losses	**(3,639)**	(6,430)
– income taxes	**—**	—
Other comprehensive income / (expense) for the year, net of tax	**(7,855)**	89,748
Total comprehensive income/(expense) for the year	**(93,914)**	644,305
Attributable to:		
– shareholders of the parent company	**(93,938)**	644,207
– non-controlling interests	**24**	98
Total comprehensive income/(expense) for the year	**(93,914)**	644,305

The accompanying notes on pages 13 to 73 form an integral part of these financial statements.

Consolidated statement of financial position

at 31 December

	Notes	2020 US$000	2019 US$000
Assets			
Cash and balances at central banks		**1,240,991**	896,608
Items in the course of collection from other banks		**69,569**	78,992
Trading assets	*11*	**741,594**	194,800
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**38,813**	40,731
Derivatives	*14*	**1,879,242**	1,176,296
Loans and advances to banks	*26*	**7,742,424**	5,797,423
Loans and advances to customers	*26*	**19,350,716**	19,661,235
Reverse repurchase agreements – non-trading		**1,828,851**	741,633
Financial investments	*15*	**10,103,834**	10,483,891
Prepayments, accrued income and other assets	*19*	**1,271,857**	1,566,770
Current tax assets		**11**	10
Interests in associates	*17*	**2,867**	3,074
Intangible assets	*20*	**110,870**	62,997
Deferred tax assets	*8*	**219,664**	170,979
Total assets		**44,601,303**	40,875,439
Liabilities and equity			
Liabilities			
Deposits by banks	*26*	**3,468,222**	3,806,270
Customer accounts	*26*	**26,834,947**	23,726,514
Repurchase agreements – non-trading		**506,475**	—
Items in the course of transmission to other banks		**111,462**	186,234
Trading liabilities	*21*	**299,546**	47,989
Financial liabilities designated at fair value	*22*	**2,823,792**	2,514,102
Derivatives	*14*	**1,799,144**	1,091,651
Debt securities in issue	*23*	**2,000,594**	1,788,486
Accruals, deferred income and other liabilities	*24*	**1,641,852**	2,550,378
Current tax liabilities		**85,740**	99,126
Provisions	*25*	**129,583**	71,201
Total liabilities		**39,701,357**	35,881,951
Equity			
Called up share capital	*29*	**931,055**	931,055
Share premium account	*29*	**61,346**	61,346
Other reserves		**(119,765)**	(112,172)
Retained earnings		**4,022,892**	4,108,865
Total shareholders' equity		**4,895,528**	4,989,094
Non-controlling interests		**4,418**	4,394
Total equity		**4,899,946**	4,993,488
Total liabilities and equity		**44,601,303**	40,875,439

The accompanying notes on pages 13 to 73 form an integral part of these financial statements.

Martin Tricaud

Chief Executive Officer and Deputy Chairman

Consolidated statement of cash flows

for the year ended 31 December

	Notes	2020 US$000	2019 US$000
Cash flows from operating activities			
Profit/(loss) before tax		**(75,518)**	645,243
Adjustments for:			
Net (gain)/loss from investing activities		**(9,199)**	1,473
Share of profit/(loss) in associates		**207**	(651)
Other non-cash items included in profit before tax	*30*	**759,511**	173,639
Change in operating assets	*30*	**(1,486,626)**	590,597
Change in operating liabilities	*30*	**2,436,671**	5,072,121
Elimination of exchange differences[1]		**(16,477)**	(1,542)
Tax paid		**(81,120)**	(77,539)
Net cash generated from operating activities		**1,527,449**	6,403,341
Cash flows from investing activities			
Net cash flows from purchase and sale/maturity of financial investments		**89,309**	(4,323,646)
Net cash flows from the purchase and sale of property, plant and equipment		**(6,892)**	(20,705)
Net investment in intangible assets		**(53,412)**	(41,340)
Net cash generated from/(used) in investing activities		**29,005**	(4,385,691)
Cash flows from financing activities			
Dividends paid to shareholders of the parent company	*9*	**—**	(200,000)
Net cash used in financing activities		**—**	(200,000)
Net increase in cash and cash equivalents		**1,556,454**	1,817,650
Cash and cash equivalents at 1 Jan[2]		**6,145,574**	4,328,007
Exchange differences in respect of cash and cash equivalents		**(5)**	(83)
Cash and cash equivalents at 31 Dec	*30*	**7,702,023**	6,145,574

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Cash and cash equivalents include mandatory deposits amounting to $385m (2019: $1,889m) at central banks which are not available for use by the group.*

The accompanying notes on pages 13 to 73 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	Retained earnings	Other reserves: Financial assets at FVOCI reserves	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2020	**992,401**	**4,108,865**	**7,192**	**20,570**	**(124,613)**	**(15,321)**	**4,989,094**	**4,394**	**4,993,488**
Loss for the year	**–**	**(86,083)**	**–**	**–**	**–**	**–**	**(86,083)**	**24**	**(86,059)**
Other comprehensive expense (net of tax)	**–**	**(276)**	**7,932**	**3,722**	**(19,233)**	**–**	**(7,855)**	**–**	**(7,855)**
– debt instruments at fair value through other comprehensive income	**–**	**–**	**15,494**	**–**	**–**	**–**	**15,494**	**–**	**15,494**
– equity instruments designated at fair value through other comprehensive income	**–**	**–**	**(7,480)**	**–**	**–**	**–**	**(7,480)**	**–**	**(7,480)**
– cash flow hedges	**–**	**–**	**–**	**3,722**	**–**	**–**	**3,722**	**–**	**3,722**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**–**	**(3,639)**	**–**	**–**	**–**	**–**	**(3,639)**	**–**	**(3,639)**
– remeasurement of defined benefit asset/liability	**–**	**7,070**	**–**	**–**	**–**	**–**	**7,070**	**–**	**7,070**
– exchange differences	**–**	**(3,707)**	**(82)**	**–**	**(19,233)**	**–**	**(23,022)**	**–**	**(23,022)**
Total comprehensive expense for the year	**–**	**(86,359)**	**7,932**	**3,722**	**(19,233)**	**–**	**(93,938)**	**24**	**(93,914)**
Dividends to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other movements	**–**	**386**	**(14)**	**–**	**–**	**–**	**372**	**–**	**372**
At 31 Dec 2020	**992,401**	**4,022,892**	**15,110**	**24,292**	**(143,846)**	**(15,321)**	**4,895,528**	**4,418**	**4,899,946**
At 1 Jan 2019	992,401	3,742,607	(32,143)	(19,396)	(123,344)	(15,321)	4,544,804	4,296	4,549,100
Profit for the year	–	554,459	–	–	–	–	554,459	98	554,557
Other comprehensive income (net of tax)	–	12,074	38,977	39,966	(1,269)	–	89,748	–	89,748
– debt instruments at fair value through other comprehensive income	–	–	33,001	–	–	–	33,001	–	33,001
– equity instruments designated at fair value through other comprehensive income	–	–	5,972	–	–	–	5,972	–	5,972
– cash flow hedges	–	–	–	39,966	–	–	39,966	–	39,966
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	(6,430)	–	–	–	–	(6,430)	–	(6,430)
– remeasurement of defined benefit asset/liability	–	19,368	–	–	–	–	19,368	–	19,368
– exchange differences	–	(864)	4	–	(1,269)	–	(2,129)	–	(2,129)
Total comprehensive income for the year	–	566,533	38,977	39,966	(1,269)	–	644,207	98	644,305
Dividends to shareholders	–	(200,000)	–	–	–	–	(200,000)	–	(200,000)
Other movements	–	(275)	358	–	–	–	83	–	83
At 31 Dec 2019	992,401	4,108,865	7,192	20,570	(124,613)	(15,321)	4,989,094	4,394	4,993,488

The accompanying notes on pages 13 to 73 form an integral part of these financial statements.

Notes on the financial statements

1 Legal status and principal activities

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

The group's registered office is Level 1, Gate Village Building 8, Dubai International Financial Centre, Dubai, United Arab Emirates.

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

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

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee. These financial statements are also compliant with IFRSs adopted by the European Union as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. At 31 December 2020, there were no unendorsed standards effective for the year ended 31 December 2020 affecting these consolidated financial statements.

Standards adopted during the year ended 31 December 2020

Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

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

These amendments apply from 1 January 2021 with early adoption permitted. The group has adopted the amendments from 1 January 2020 and has made the additional disclosures as required by the amendments.

Other changes

In addition, the group has adopted a number of interpretations and amendments to standards, which have had an insignificant effect on the consolidated financial statements of the group.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2021 that are applicable to the group. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. The group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group.

Major new IFRSs

IFRS 17 'Insurance Contracts'

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

(c) Foreign currencies

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

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

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

(d) Critical accounting estimates and judgements

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

(e) 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.

Change in reportable segments

During 2020, the group made the following realignments within its internal reporting to Chief Operating Decision Maker ('CODM'):

- Simplification of our matrix organisational structure by merging Global Private Banking ('GPB') and Retail Banking and Wealth Management ('RBWM') to form Wealth and Personal Banking ('WPB').
- Reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Comparative data have been re-presented accordingly.

Products and services

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

- 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. We also provide wealth management services, including insurance and investment products, global asset management services, investment management and Private Wealth Solutions for customers with more sophisticated and international requirements.
- Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of our commercial customers, including small- and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards), commercial insurance and investments. CMB also offers customers access to products and services offered by other global businesses, such as GBM, which include foreign exchange products, raising capital on debt and equity markets and advisory services.
- Global Banking and Markets ('GBM') provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services, a markets business that provides services in credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.
- Corporate Centre comprises interests in associates and central stewardship costs that support our businesses.

2.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

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

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

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

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

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

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

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

All intra-group transactions are eliminated on consolidation.

Interests in associates and joint arrangements

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

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

(b) Income and expenses

Operating income

Interest income and expense

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

Non-interest income and expense

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

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

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

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

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

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

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

(c) Valuation of financial instruments

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

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

Critical accounting estimates and judgements

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

(d) Financial instruments measured at amortised cost

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

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

Non-trading reverse repurchase, repurchase and similar agreements

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

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

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

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

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

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

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

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

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

Designated financial assets are recognised when the group enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the group enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis';

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

- Long-term debt issues.

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

(h) Derivatives

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

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

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

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

Net investment hedge

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

Derivatives that do not qualify for hedge accounting

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

(i) Impairment of amortised cost and FVOCI financial assets

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

Credit-impaired (stage 3)

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

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

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

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

Write-off

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

Renegotiation

Loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated 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 renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be purchased or originated credit-impaired ('POCI') and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below 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). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit-impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. 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.

Significant increase in credit risk (stage 2)

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

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

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps
Greater than 3.3 and not impaired	2x

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

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

Further information about the 23-grade scale used for CRR can be found on page 55.

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

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

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

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

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI 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. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 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. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

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

In general, the group calculates ECL using three main components, a probability of default, a loss given default 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 probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

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

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

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due, this has been modified to 180+ days past due for some portfolios	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also 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 on an individual basis using a discounted cash flow methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is 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 four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

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

Forward-looking economic inputs

The group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside, Downside scenarios and Additional Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside, Downside and Additional Downside are constructed following a standard process supported by a scenario narrative reflecting the group's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product of UAE. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, and commercial property prices across all the countries in which the group operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

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

Critical accounting estimates and judgements

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

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk • Determining the lifetime and point of initial recognition of overdrafts and credit cards • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	• The sections on pages 49 to 51, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(j) Employee compensation and benefits

Share-based payments

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

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

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

Post-employment benefit plans

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

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

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

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

The group also makes contributions to the HSBC International Staff Retirement Benefit Scheme in respect of a small number of International Managers being seconded to the group by the HSBC Group. The group accounts for contributions to this scheme as if it is a defined contribution scheme on the basis that any actuarial gains and losses would not be material.

(k) Tax

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

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

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

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

Critical accounting estimates and judgements

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies.

(l) Debt securities in issue

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

(m) Provisions, contingent liabilities and guarantees

Provisions

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

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) 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 judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide 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. Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Financial guarantee contracts

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

(n) Acceptances and endorsements

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

(o) Impairment of non-financial assets

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

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

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

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

Critical accounting estimates and judgements

The review of the non-financial assets for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the Critical accounting estimates and judgements in Note 2.1(d). In 2020, there was no impairment of non-financial assets based on comparing the carrying amount of the group's CGUs with their recoverable amount.

3 Net fee income

	2020	2019
	US$000	US$000
Credit Facilities	**48,670**	57,554
Remittances	**32,931**	36,690
Cards	**113,881**	152,941
Global Custody	**35,107**	37,319
Account services	**23,825**	41,129
Trade finance	**52,188**	50,713
Insurance agency	**12,078**	13,126
Corporate/project finance	**18,306**	21,122
Others[1]	**166,112**	157,507
Total Fee Income	**503,098**	568,101
Fee Expense	**(82,048)**	(114,586)
Net Fee Income	**421,050**	453,515

1 *Others include intercompany fee of US$60m (2019: US$65m). Refer Note 35 for further details of Related Party Transactions.*

4 Changes in fair value of designated debt and related derivatives

	2020	2019
	US$000	US$000
Net income/(expense) arising on:		
– other changes in fair value	**(6,346)**	4,016
Year ended 31 Dec	**(6,346)**	4,016

5 Operating profit/(loss)

Operating profit is stated after the following items:

	2020 US$000	2019 US$000
Income		
Interest recognised on impaired financial assets	**9,751**	5,117
Interest recognised on financial assets measured at amortised cost	**860,813**	1,102,972
Interest recognised on financial assets measured at FVOCI	**99,654**	173,083
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)	**353,455**	422,445
Fees earned on trust and other fiduciary activities	**18,209**	18,973
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value	**(112,750)**	(194,257)
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)	**(65,187)**	(92,054)
Restructuring provisions	**(9,412)**	(15,123)
Gains/(losses)		
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**(340)**	(1,637)
Change in expected credit loss charges and other credit impairment charges	**(638,271)**	(99,990)
– loans and advances to banks and customers	**(576,798)**	(95,150)
– loans commitments and guarantees	**(60,065)**	(20,108)
– other financial assets	**(116)**	15,641
– debt instruments measured at fair value though other comprehensive income	**(1,292)**	(373)

6 Employee compensation and benefits

	2020 US$000	2019 US$000
Wages and salaries	**510,451**	538,181
Social security costs	**7,301**	6,526
Post-employment benefits	**23,129**	30,406
Year ended 31 Dec	**540,881**	575,113

Share-based payments

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

	2020 US$000	2019 US$000
Restricted share awards	**8,792**	9,755
Year ended 31 Dec	**8,792**	9,755

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Present value of defined benefit obligations[1] US$000	Net defined benefit liability US$000
At 1 Jan 2020	**(151,757)**	**(151,757)**
Current service cost	**(19,114)**	**(19,114)**
Net interest cost on the net defined benefit liability	**(2,656)**	**(2,656)**
Re-measurement effects recognised in other comprehensive income – actuarial gains	**11,481**	**11,481**
Exchange differences and other movements	**(223)**	**(223)**
Benefits paid	**16,915**	**16,915**
At 31 Dec 2020	**(145,354)**	**(145,354)**
At 1 Jan 2019	(168,261)	(168,261)
Current service cost	(23,521)	(23,521)
Net interest cost on the net defined benefit liability	(4,997)	(4,997)
Re-measurement effects recognised in other comprehensive income – actuarial gains	28,116	28,116
Exchange differences and other movements	(2,570)	(2,570)
Benefits paid	19,476	19,476
At 31 Dec 2019	(151,757)	(151,757)

1 *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 2020	**1.48**	**0.25**	**7.00**
At 31 Dec 2019	2.24	1.70	7.00

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, high quality corporate bonds.

The effect of changes in key assumptions on the principal plan

	United Arab Emirates	
	2020	2019
	US$000	US$000
Discount rate		
Change in scheme obligation at year end from a 25bps increase	**(2,289)**	(1,146)
Change in scheme obligation at year end from a 25bps decrease	**2,361**	3,853
Change in following year scheme cost from a 25bps increase	**(499)**	(29)
Change in following year scheme cost from a 25bps decrease	**42**	25
Rate of pay increase		
Change in scheme obligation at year end from a 25bps increase	**2,548**	4,008
Change in scheme obligation at year end from a 25bps decrease	**(2,480)**	(1,307)
Change in following year scheme cost from a 25bps increase	**453**	440
Change in following year scheme cost from a 25bps decrease	**(257)**	(430)

7 Auditors' remuneration

	2020	2019
	US$000	US$000
Audit fees payable to PwC	**1,445**	1,230
Other audit fees payable	**38**	30
Year ended 31 Dec	**1,483**	1,260

Fees payable by the group to PwC

		2020	2019
	Footnotes	**US$000**	US$000
Fees for HSBC Bank Middle East Limited statutory audit	*1*	**1,445**	1,230
– relating to current year		**1,445**	1,230
Fees for other services provided to the group		**952**	1,243
– audit-related assurance services	*2*	**743**	985
– other non-audit services		**209**	258
Year ended 31 Dec		**2,397**	2,473

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

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

8 Tax

Tax expense

	2020	2019
	US$000	US$000
Current tax	**63,883**	65,297
– for this year	**68,918**	77,723
– adjustments in respect of prior years	**(5,035)**	(12,426)
Deferred tax	**(53,342)**	25,389
– origination and reversal of temporary differences	**(53,342)**	25,389
Year ended 31 Dec	**10,541**	90,686

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:

	2020		2019	
	US$000	%	US$000	%
Profit/(loss) before tax	(75,518)		645,243	
Tax expense				
Taxation at UAE corporate tax rate of 20% (2019: 20%)	(15,104)	20.0	129,049	20.0
Effect of differently taxed overseas profits	10,640	(14.1)	(4,956)	(0.8)
Adjustments in respect of prior period liabilities	(5,035)	6.7	(12,426)	(1.9)
Non-taxable income and gains	2,953	(3.9)	(31,228)	(4.8)
Permanent disallowables	5,464	(7.2)	6,599	1.0
Deferred Tax	7,438	(9.8)	—	—
Local taxes and overseas withholding taxes	4,185	(5.5)	3,648	0.6
Overall tax expense	10,541	(13.8)	90,686	14.1

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

	Retirement benefits	Loan impairment allowances	Other	Total
	US$000	US$000	US$000	US$000
Assets	4,411	158,042	8,526	170,979
Liabilities	—	—	—	—
At 1 Jan 2020	4,411	158,042	8,526	170,979
Income statement	—	32,148	21,194	53,342
Other comprehensive income	(4,411)	—	—	(4,411)
Foreign exchange and other adjustments	—	(103)	(143)	(246)
At 31 Dec 2020	—	190,087	29,577	219,664
Assets	—	190,087	29,577	219,664
Liabilities	—	—	—	—
Assets	13,149	185,038	6,795	204,982
Liabilities	—	—	—	—
At 1 Jan 2019	13,149	185,038	6,795	204,982
Income statement	—	(25,293)	(96)	(25,389)
Other comprehensive income	(8,748)	—	—	(8,748)
Foreign exchange and other adjustments	10	(1,703)	1,827	134
At 31 Dec 2019	4,411	158,042	8,526	170,979
Assets	4,411	158,042	8,526	170,979
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 US$7.4m (2019: nil).

9 Dividends

Dividends to shareholders of the parent company

	2020		2019	
	Per share	Total	Per share	Total
	US$	US$000	US$	US$000
Dividends paid on ordinary shares				
In respect of previous year:				
– second interim dividend	—	—	0.1074	100,000
– third interim dividend	—	—	0.1074	100,000
In respect of current year:				
– first interim dividend	—	—	—	—
Total	—	—	0.2148	200,000

10 Segment analysis

Profit/(loss) for the period

	2020				
Full year	**Wealth and Personal Banking US$000**	**Commercial Banking US$000**	**Global Banking and Markets US$000**	**Corporate Centre US$000**	**Total US$000**
Net interest income	**311,370**	**190,471**	**280,280**	**(4,526)**	**777,595**
Net fee income	**92,907**	**130,282**	**201,510**	**(3,649)**	**421,050**
Net income from financial instruments held for trading or managed on a fair value basis	**46,146**	**30,185**	**159,739**	**1,069**	**237,139**
Other income	**14,046**	**12,617**	**5,403**	**28,199**	**60,265**
Net operating income before change in expected credit losses and other credit impairment charges	**464,469**	**363,555**	**646,932**	**21,093**	**1,496,049**
Change in expected credit losses and other credit impairment charges	**(128,491)**	**(327,897)**	**(181,883)**	**—**	**(638,271)**
Net operating income	**335,978**	**35,658**	**465,049**	**21,093**	**857,778**
Total operating expenses	**(363,371)**	**(232,691)**	**(277,912)**	**(59,115)**	**(933,089)**
Operating profit/(loss)	**(27,393)**	**(197,033)**	**187,137**	**(38,022)**	**(75,311)**
Share of profit/(loss) in associates	**—**	**—**	**—**	**(207)**	**(207)**
Profit/(loss) before tax	**(27,393)**	**(197,033)**	**187,137**	**(38,229)**	**(75,518)**
By geographical region					
U.A.E.	**(20,926)**	**(210,334)**	**103,707**	**(38,658)**	**(166,211)**
Qatar	**(741)**	**14,287**	**52,524**	**(75)**	**65,995**
Rest of Middle East	**(5,726)**	**(986)**	**30,906**	**504**	**24,698**
Profit/(loss) before tax	**(27,393)**	**(197,033)**	**187,137**	**(38,229)**	**(75,518)**

	2019				
Net interest income	404,400	250,315	331,966	(12,241)	974,440
Net fee income	115,529	134,050	208,010	(4,074)	453,515
Net income from financial instruments held for trading or managed on a fair value basis	47,361	32,775	123,486	9,132	212,754
Other income	7,525	12,412	14,516	24,517	58,970
Net operating income before change in expected credit losses and other credit impairment charges	574,815	429,552	677,978	17,334	1,699,679
Change in expected credit losses and other credit impairment charges	(47,426)	(47,563)	(5,000)	(1)	(99,990)
Net operating income	527,389	381,989	672,978	17,333	1,599,689
Total operating expenses	(368,541)	(239,650)	(273,224)	(73,682)	(955,097)
Operating profit/(loss)	158,848	142,339	399,754	(56,349)	644,592
Share of profit in associates	—	—	—	651	651
Profit/(loss) before tax	158,848	142,339	399,754	(55,698)	645,243
By geographical region					—
U.A.E.	138,082	94,327	247,333	(49,885)	429,857
Qatar	9,611	30,073	74,523	(2,582)	111,625
Rest of Middle East	11,155	17,939	77,898	(3,231)	103,761
Profit/(loss) before tax	158,848	142,339	399,754	(55,698)	645,243

Balance sheet information

	2020				
	Wealth and Personal Banking US$000	**Commercial Banking US$000**	**Global Banking and Markets US$000**	**Corporate Centre US$000**	**Total US$000**
Loans and advances to customers (net)	**3,142,919**	**6,250,448**	**9,957,349**	**—**	**19,350,716**
Interest in associates	**—**	**—**	**—**	**2,867**	**2,867**
Total assets	**11,435,751**	**9,749,856**	**21,644,367**	**1,771,329**	**44,601,303**
Customer accounts	**12,586,110**	**5,329,063**	**8,919,761**	**13**	**26,834,947**
Total liabilities	**13,450,534**	**6,849,109**	**16,710,732**	**2,690,982**	**39,701,357**

	2019				
Loans and advances to customers (net)	3,635,259	6,794,851	9,231,125	—	19,661,235
Interest in associates	—	—	—	3,074	3,074
Total assets	11,446,122	10,282,651	17,536,463	1,610,203	40,875,439
Customer accounts	11,484,691	4,694,234	7,547,577	12	23,726,514
Total liabilities	13,169,498	6,737,883	12,836,999	3,137,571	35,881,951

Other financial information

Net operating income by global business

	Footnotes	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
		2020				
		US$000	**US$000**	**US$000**	**US$000**	**US$000**
Net operating income	1	**464,469**	**363,555**	**646,932**	**21,093**	**1,496,049**
– external		**408,603**	**428,034**	**672,517**	**(13,105)**	**1,496,049**
– internal		**55,866**	**(64,479)**	**(25,585)**	**34,198**	**–**
		2019				
Net operating income	1	574,815	429,552	677,978	17,334	1,699,679
– external		486,063	562,755	812,420	(161,559)	1,699,679
– internal		88,752	(133,203)	(134,442)	178,893	–

1 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*

Information by country

	2020		2019	
	External net operating income[1]	**Non-current assets[2]**	External net operating income[1]	Non-current assets[2]
	US$000	**US$000**	US$000	US$000
U.A.E.	**1,168,941**	**359,341**	1,327,580	339,722
Qatar	**168,614**	**9,831**	188,871	7,968
Rest of Middle East	**158,494**	**23,001**	183,228	11,514
Total	**1,496,049**	**392,173**	1,699,679	359,204

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

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	2020				
	%	**%**	**%**	**%**	**%**
Year ended 31 December 2020					
Share of the group's profit before tax	**(36.3)**	**(260.9)**	**247.8**	**(50.6)**	**(100.0)**
Cost efficiency ratio[1]	**78.2**	**64.0**	**43.0**	**280.3**	**62.4**
	2019				
Year ended 31 December 2019					
Share of the group's profit before tax	24.6	22.1	62.0	(8.6)	(100.0)
Cost efficiency ratio	64.1	55.8	40.3	425.1	56.2

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.*

11 Trading assets

	2020	2019
	US$000	US$000
Trading assets:		
– not subject to repledge or resale by counterparties	**741,594**	194,800
At 31 Dec	**741,594**	194,800
Debt securities	**224,795**	136,087
Treasury and other eligible bills	**73,941**	58,713
Trading securities	**298,736**	194,800
Loans and advances to banks	**132,318**	–
Trading reverse repurchase agreements	**275,386**	–
Loans and advances to customers	**35,154**	–
At 31 Dec	**741,594**	194,800

12 Fair values of financial instruments carried at fair value

Control framework

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

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

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

The majority of financial instruments measured at fair value are in GBM. GBM's 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 a Libor-based 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 taken in reserves (OCI), the residual risks (rates, volatility, time effects) are Fair valued through Profits and Losses.

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

	2020				2019			
	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	**152,116**	**511,653**	**77,825**	**741,594**	3,413	111,427	79,960	194,800
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**–**	**–**	**38,813**	**38,813**	–	–	40,731	40,731
Derivatives	**–**	**1,876,664**	**2,578**	**1,879,242**	–	1,170,654	5,642	1,176,296
Financial investments	**5,859,460**	**4,206,655**	**37,719**	**10,103,834**	4,513,159	5,925,563	45,169	10,483,891
Liabilities								
Trading liabilities	**139,120**	**160,426**	**–**	**299,546**	–	47,989	–	47,989
Financial liabilities designated at fair value	**–**	**2,823,792**	**–**	**2,823,792**	–	2,514,102	–	2,514,102
Derivatives	**–**	**1,796,424**	**2,720**	**1,799,144**	–	1,091,209	442	1,091,651

The balance as at 31 December 2020 under financial assets designated at fair value through profit or loss is US$ 38.8m (2019: US$40.7m) and financial assets mandatorily measured at fair value through profit or loss is nil (2019: nil).

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

During 2020 there was a transfer of US$ nil (2019: US$ nil) from Level 2 to Level 1 Financial Investments. The transfers from Level 2 to Level 3 during the year are shown in 'Movement in Level 3 financial instruments' on page 30.

Fair value adjustments

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

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

Bid-offer

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

Uncertainty

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

Credit and debit valuation adjustment

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

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

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

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

Funding fair value adjustment

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

Model limitation

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

Inception profit (Day 1 P&L reserves)

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

Fair value valuation bases

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

	Assets					Liabilities	
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Derivatives	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Private equity including strategic investments	37,719	–	38,813	–	76,532	–	–
Other derivatives	–	–	–	2,578	2,578	2,720	2,720
Other portfolios	–	77,825	–	–	77,825	–	–
At 31 Dec 2020	**37,719**	**77,825**	**38,813**	**2,578**	**156,935**	**2,720**	**2,720**
Private equity including strategic investments	45,169	–	40,731	–	85,900	–	–
Other derivatives	–	–	–	5,642	5,642	442	442
Other portfolios	–	79,960	–	–	79,960	–	–
At 31 Dec 2019	45,169	79,960	40,731	5,642	171,502	442	442

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

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

Movement in Level 3 financial instruments

	Assets				Liabilities
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Derivatives
	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2020	**45,169**	**79,960**	**40,731**	**5,642**	**442**
Total gain/(losses) recognised in profit or loss	**—**	**(2,135)**	**(1,889)**	**(1,293)**	**—**
– net income/expense from financial instruments held for trading or managed on a fair value basis	**—**	**(2,135)**	**—**	**(1,293)**	**—**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(1,889)**	**—**	**—**
Total gains recognised in other comprehensive income	**(7,450)**	**—**	**—**	**—**	**—**
– financial investments: fair value gains	**(7,450)**	**—**	**—**	**—**	**—**
Purchases	**—**	**—**	**—**	**4,419**	**4,435**
Settlements	**—**	**—**	**(29)**	**(6,190)**	**(2,157)**
Transfers out	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**37,719**	**77,825**	**38,813**	**2,578**	**2,720**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	**—**	**(2,135)**	**(1,889)**	**(1,293)**	**—**
– net income/expense from financial instruments held for trading or managed on a fair value basis	**—**	**(2,135)**	**—**	**(1,293)**	**—**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(1,889)**	**—**	**—**
At 1 Jan 2019	256,832	79,955	47,839	—	—
Total gain/(losses) recognised in profit or loss	—	5	(5,853)	(1,856)	—
– net income from financial instruments held for trading or managed on a fair value basis	—	5	—	(1,856)	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(5,853)	—	—
Total gains recognised in other comprehensive income	8,731	—	—	—	—
– financial investments: fair value gains	8,731	—	—	—	—
Purchases	—	—	—	8,651	442
Settlements	—	—	(1,255)	(1,153)	—
Transfers out	(220,394)	—	—	—	—
At 31 Dec 2019	45,169	79,960	40,731	5,642	442
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2019	—	5	(5,853)	(1,856)	—
– net income/expense from financial instruments held for trading or managed on a fair value basis	—	5	—	(1,856)	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(5,853)	—	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

		31 Dec 2020				31 Dec 2019			
		Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
		Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	Footnotes	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Derivatives, trading assets and trading liabilities	*1*	**—**	**(2,171)**	**—**	**—**	61	(3,101)	47	(23)
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**1,941**	**(1,941)**	**—**	**—**	4,073	(2,037)	—	—
Financial investments		**—**	**—**	**3,747**	**(1,886)**	—	—	4,517	(2,258)
Total		**1,941**	**(4,112)**	**3,747**	**(1,886)**	4,134	(5,138)	4,564	(2,281)

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

13 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	US$000	US$000	US$000	US$000	US$000
At 31 Dec 2020					
Assets					
Loans and advances to banks	**7,742,424**	**–**	**7,831,950**	**–**	**7,831,950**
Loans and advances to customers	**19,350,716**	**–**	**–**	**19,216,687**	**19,216,687**
Reverse repurchase agreements – non-trading	**1,828,851**	**–**	**1,795,732**	**–**	**1,795,732**
Liabilities					
Deposits by banks	**3,468,222**	**–**	**3,443,935**	**–**	**3,443,935**
Customer accounts	**26,834,947**	**–**	**26,849,547**	**–**	**26,849,547**
Repurchase agreements – non-trading	**506,475**	**–**	**502,950**	**–**	**502,950**
Debt securities in issue	**2,000,594**	**–**	**1,962,882**	**–**	**1,962,882**
At 31 Dec 2019					
Assets					
Loans and advances to banks	5,797,423	–	5,793,326	–	5,793,326
Loans and advances to customers	19,661,235	–	–	19,535,146	19,535,146
Reverse repurchase agreements – non-trading	741,633	–	741,633	–	741,633
Liabilities					
Deposits by banks	3,806,270	–	3,808,351	–	3,808,351
Customer accounts	23,726,514	–	23,846,077	–	23,846,077
Repurchase agreements – non-trading	–	–	–	–	–
Debt securities in issue	1,788,486	–	1,765,206	–	1,765,206

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

Valuation

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

Loans and advances to banks and customers

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

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

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

Financial investments

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

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

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

Repurchase and reverse repurchase agreements – non-trading

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

Debt securities

Subject to available quotes, the group uses composite market data to price debt securities at FVOCI. This is applicable to High Quality Liquid Assets ('HQLA') portfolio. For local currency bonds, where such market data is not available, verified internal valuation models are used for valuations. These are normally Local Government and Central bank securities issued in their local currencies and uses market data published by the issuing entities.

14 Derivatives

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

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Foreign exchange	**129,218,566**	**900,963**	**807,461**	**2,929**	**810,390**	**739,242**	**—**	**739,242**
Interest rate	**54,859,586**	**6,013,892**	**986,065**	**68,702**	**1,054,767**	**981,543**	**63,942**	**1,045,485**
Equities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Credit	**48,491**	**—**	**303**	**—**	**303**	**635**	**—**	**635**
Commodity and other	**472,181**	**—**	**13,782**	**—**	**13,782**	**13,782**	**—**	**13,782**
At 31 Dec 2020	**184,598,824**	**6,914,855**	**1,807,611**	**71,631**	**1,879,242**	**1,735,202**	**63,942**	**1,799,144**
Foreign exchange	104,667,665	1,099,935	456,915	23,036	479,951	430,776	44	430,820
Interest rate	48,603,437	6,072,225	609,962	70,040	680,002	608,383	40,896	649,279
Equities	—	—	—	—	—	—	—	—
Credit	1,052,117	—	5,218	—	5,218	427	—	427
Commodity and other	662,673	—	11,125	—	11,125	11,125	—	11,125
At 31 Dec 2019	154,985,892	7,172,160	1,083,220	93,076	1,176,296	1,050,711	40,940	1,091,651

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

Fair value hedges

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

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]
Hedged Risk	US$000	US$000	US$000		US$000
Interest rate	**2,933,857**	**5,697**	**63,942**	**Derivatives**	**(27,976)**
At 31 Dec 2020	**2,933,857**	**5,697**	**63,942**		**(27,976)**
Interest rate	2,323,210	5,408	40,674	Derivatives	(34,934)
At 31 Dec 2019	2,323,210	5,408	40,674		(34,934)

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						In-effectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	**US$000**	**US$000**	**US$000**	**US$000**		**US$000**	**US$000**	
Interest rate	**2,914,921**	**—**	**46,168**	**—**	**Financial investment**	**27,810**		
Interest rate	**—**	**—**	**—**	**—**	**L&A to Bank**	**1,834**		
Interest rate	**385,752**	**—**	**23,136**	**—**	**L&A to Cust**	**(890)**	**(1,301)**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**—**	**69,664**	**—**	**1,945**	**Debt issued**	**(2,079)**		
Interest rate	**—**	**43,204**	**—**	**2,765**	**Depo by Bank**	**—**		
At 31 Dec 2020	**3,300,673**	**112,868**	**69,304**	**4,710**		**26,675**	**(1,301)**	
Interest rate	1,980,465	—	28,808	—	Financial	36,096		
Interest rate	150,421	—	1,422	—	L&A to Bank	1,018		
Interest rate	520,607	—	4,592	—	L&A to Cust	2,478	136	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	—	113,033	—	2,631	Debt issued	(4,522)		
Interest rate	—	—	—	—	Depo by Bank	—		
At 31 Dec 2019	2,651,493	113,033	34,822	2,631		35,070	136	

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.

For some debt securities held, the group manages interest rate risk in a dynamic risk management strategy. The assets in scope of this strategy are high quality fixed-rate debt securities, which may be sold to meet liquidity and funding requirements.

The interest rate risk of the group fixed rate debt securities issued is managed in a non-dynamic risk management strategy.

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. Macro cash flow hedges are considered to be dynamic hedges.

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; these are considered non-dynamic hedges.

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	**US$000**	**US$000**	**US$000**		**US$000**	**US$000**	**US$000**	
Foreign currency	**900,963**	**2,929**	**—**	**Derivatives**	**1,745**	**1,745**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**3,080,035**	**63,005**	**—**	**Derivatives**	**2,674**	**2,674**	**—**	
At 31 Dec 2020	**3,980,998**	**65,934**	**—**		**4,419**	**4,419**	**—**	
Foreign currency	1,099,935	23,036	44	Derivatives	646	—	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	3,749,015	64,632	222	Derivatives	43,767	44,419	6	
At 31 Dec 2019	4,848,950	87,668	266		44,413	44,419	6	

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

2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*

3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

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

The first set of amendments ('Phase 1) to IFRS 9 and IAS 39, which were published in September 2019 and endorsed in January 2020, primarily allowed to assume that the interbank offered rates ('Ibors') are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to nearly risk free rates ('RFRs') is resolved. The second set of amendments ('Phase 2'), issued in August 2020 allows to modify hedge documentation to reflect the components of hedge relationships which have transitioned to RFRs on an economically equivalent basis as a direct result of the Ibor transition. While the application of Phase 1 amendments is mandatory for accounting periods starting on or after 1 January 2020, the group has chosen to early apply the Phase 2 amendments from the beginning of 2020.

The group has cash flow and fair value hedge accounting relationships that are exposed to different Ibors, predominantly US dollar Libor. Many of the existing derivatives and other financial instruments designated in relationships referencing these benchmarks are expected to transition to RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the group that is expected to be directly affected by market-wide Ibors reform and in scope of Phase 1 and Phase 2 amendments. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging Instrument impacted by Ibor Reform

	Hedging instrument						
	Impacted by Ibor Reform					NOT Impacted by Ibor Reform	Notional Contract Amount[1]
	EUR	GBP	USD	Other	Total		
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Fair Value Hedges	**12,184**	**68,282**	**2,309,609**	**543,782**	**2,933,857**	**—**	**2,933,857**
Cash Flow Hedges	**—**	**—**	**1,639,890**	**1,440,145**	**3,080,035**	**900,963**	**3,980,998**
At 31 Dec 2020	**12,184**	**68,282**	**3,949,499**	**1,983,927**	**6,013,892**	**900,963**	**6,914,855**
Fair Value Hedges	11,224	111,924	2,100,148	99,914	2,323,210	—	2,323,210
Cash Flow Hedges	—	—	1,913,261	1,835,754	3,749,015	—	3,749,015
At 31 Dec 2019	11,224	111,924	4,013,409	1,935,668	6,072,225	—	6,072,225

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

15 Financial investments

Carrying amount of financial investments

	Footnotes	2020	2019
		US$000	US$000
Financial investment measured at fair value through other comprehensive income			
Treasury and other eligible bills		**3,966,741**	2,328,599
Debt securities		**6,099,374**	8,110,123
Equity securities[1]	1	**37,719**	45,169
At 31 Dec		**10,103,834**	10,483,891

1 *The dividends recognised on these investments during the year were nil (2019: nil).*

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

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$2,382m (2019: US$864m). The fair value of any such collateral sold or repledged is US$453m (2019: nil). The group is obliged to return these assets. These transactions are conducted under terms that are usual and customary to standard securities borrowing and reverse repurchase agreements. The fair value of assets pledged as collateral but that do not qualify for derecognition is US$50m (2019: US$ nil).

17 Interests in associates and joint arrangement

Associates of the group

	At 31 Dec 2020			
	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

	2020	2019
	US$000	US$000
At 1 Jan	**3,074**	2,423
Disposals	**—**	—
Share of results	**(207)**	651
At 31 Dec	**2,867**	3,074

Joint arrangement of the group

	At 31 Dec 2020			
	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$621m fully paid**

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

18 Investments in subsidiaries

Subsidiary undertakings of the bank

	At 31 Dec 2020	
	Country of incorporation or registration	Bank's interest in equity capital
HSBC Financial Services (Middle East) Limited (in liquidation)	**Dubai, UAE**	**100%**
HSBC Middle East Asset Company LLC *(formerly HSBC Middle East Finance Company Limited)*	**Dubai, UAE**	**80%**
HSBC Middle East Securities LLC	**Dubai, UAE**	**100%**
HSBC Insurance Services (Lebanon) S.A.L. (in liquidation)	**Lebanon**	**100%**
HSBC Bank Middle East Representative Office Morocco S.A.R.L. (in liquidation)	**Morocco**	**100%**

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

The subsidiary undertakings are unlisted, directly owned and are included in the consolidated financial statements of the group.

In order to comply with local legal requirements, the ownership of the investment in HSBC Middle East Securities LLC is held 49.00% in the name of the bank and 51.00% in the personal name of Mr. Abdul Wahid Al Ulama, as nominee. Under a Memorandum of Understanding, the nominee has transferred his legal and/or beneficial interest in HSBC Middle East Securities LLC to the bank. The total book value of the assets of HSBC Middle East Securities LLC amount to US$3.3m (2019: US$3.2m).

19 Prepayments, accrued income and other assets

	2020	2019
	US$000	US$000
Prepayments and accrued income	**160,791**	204,566
Endorsements and acceptances	**610,748**	807,661
Other accounts	**221,882**	261,409
Property, plant and equipment*	**278,436**	293,134
At 31 Dec	**1,271,857**	1,566,770

**As at 31 December 2020, net book value of HSBC Tower was US$ 236m (2019: US$ 243m) and depreciation charged during the year was US$ 8m (2019: US$ 10m).*

20 Intangible assets

Included within intangible assets is internally generated software with a net carrying value of US$110m (2019: US$61m).

During the year, capitalisation of internally generated software was US$54m (2019: US$41m), amortisation was US$16m (2019: US$8m).

21 Trading liabilities

	2020	2019
	US$000	US$000
Deposits by banks	**8,055**	—
Trading repurchase agreements	**152,371**	—
Other liabilities – net short positions in securities	**139,120**	47,989
At 31 Dec	**299,546**	47,989

22 Financial liabilities designated at fair value

	2020	2019
	US$000	US$000
Deposits by bank and customer accounts	517,228	778,684
Debt securities in issue (Note 23)	2,306,564	1,735,418
Total	2,823,792	2,514,102

At 31 December 2020, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of US$14.3m (2019: US$10.8m loss). As at 31 December 2020, the difference between the carrying amount and the amount contractually required to be paid at maturity was US$57m (2019: US$95m).

23 Debt securities in issue

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	US$000	US$000	US$000	US$000
Medium-term notes	3,357,158	3,357,183	2,573,904	2,573,719
Non-equity preference shares	950,000	912,263	950,000	926,905
Total debt securities in issue	4,307,158	4,269,446	3,523,904	3,500,624
Included within:				
– financial liabilities designated at fair value (Note 22)	(2,306,564)	(2,306,564)	(1,735,418)	(1,735,418)
At 31 Dec	2,000,594	1,962,882	1,788,486	1,765,206

Movement in medium-term notes at amortised cost

	2020	2019
	US$000	US$000
Balance as at 1 Jan	838,486	1,540,371
New issues	412,044	83,000
Repayments	(199,936)	(786,892)
Other movements	–	2,007
At 31 Dec	1,050,594	838,486

Non-equity preference share capital

Authorised

The authorised non-equity preference share capital of the bank at 31 December 2020 and 31 December 2019 was 1,125,000 dated preference shares of US$1.00 each and 225,000 undated preference shares of US$1.00 each.

Issued

Undated preference shares

Issue number	Issue date	Undated preference shares	Preference dividends	Redeemable at the option of the bank on any date after
		Number	%	Date
1	29 October 1997	50,000	12 month US dollar Libor + 0.35	30 October 2002
2	1 April 1998	25,000	12 month US dollar Libor + 0.70	2 April 2003
6	14 March 2006	150,000	12 month US dollar Libor + 0.65	15 March 2011

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

Dated preference shares

Issue number	Issue date	Dated preference shares	Preference dividends	Redeemable at the option of the bank on any date after
		Number	%	Date
11	16 December 2014	250,000	3 month US dollar Libor + 2.40	16 December 2019
11	16 December 2014	250,000	3 month US dollar Libor + 2.70	16 December 2024
12	30 December 2014	225,000	3 month US dollar Libor + 2.70	30 December 2024

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

24 Accruals, deferred income and other liabilities

	2020	2019
	US$000	US$000
Accruals and deferred income	**211,190**	237,675
Share-based payments liability to HSBC Holdings plc	**10,215**	11,217
Endorsements and acceptances	**614,022**	808,772
Employee benefit liabilities (Note 6)	**145,354**	151,757
Other liabilities	**661,071**	1,340,957
At 31 Dec	**1,641,852**	2,550,378

25 Provisions

	Restructuring costs	**Contractual commitments**	**Legal proceedings and regulatory matters**	**Customer remediation**	**Other provisions**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
At 1 Jan 2020	**7,877**	**53,008**	**4,638**	**—**	**5,678**	**71,201**
Additions	**9,412**	**—**	**769**	**—**	**1,119**	**11,300**
Amounts utilised	**(7,411)**	**—**	**(774)**	**—**	**(1,147)**	**(9,332)**
Unused amounts reversed	**(2,179)**	**—**	**(1,569)**	**—**	**—**	**(3,748)**
Net Change in expected credit loss provision	**—**	**60,065**	**—**	**—**	**—**	**60,065**
Exchange and other movements	**—**	**—**	**(10)**	**—**	**107**	**97**
At 31 Dec 2020	**7,699**	**113,073**	**3,054**	**—**	**5,757**	**129,583**
At 1 Jan 2019	4,188	33,038	15,106	22	13,797	66,151
Additions	15,123	—	990	—	1,834	17,947
Amounts utilised	(10,441)	—	(1,316)	—	(2,979)	(14,736)
Unused amounts reversed	(993)	—	(16,291)	(22)	—	(17,306)
Net Change in expected credit loss provision	—	20,108	—	—	—	20,108
Exchange and other movements	—	(138)	6,149	—	(6,974)	(963)
At 31 Dec 2019	7,877	53,008	4,638	—	5,678	71,201

26 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 are excluded because they are not held for collection or settlement over the period of contractual maturity.

Maturity analysis of assets and liabilities

	At 31 Dec 2020				
	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					
Loans and advances to banks	**6,099,421**	**585,175**	**1,057,828**	**—**	**7,742,424**
Loans and advances to customers	**5,242,908**	**3,671,143**	**7,675,518**	**2,761,147**	**19,350,716**
Reverse repurchase agreements – non-trading	**1,517,283**	**54,353**	**257,215**	**—**	**1,828,851**
Financial investments	**6,046,915**	**1,326,254**	**2,540,976**	**189,689**	**10,103,834**
Other financial assets	**779,843**	**147,759**	**1,919**	**—**	**929,521**
	19,686,370	**5,784,684**	**11,533,456**	**2,950,836**	**39,955,346**
Financial liabilities					
Deposits by banks	**611,893**	**362,684**	**2,493,645**	**—**	**3,468,222**
Customer accounts	**25,259,178**	**1,507,774**	**67,995**	**—**	**26,834,947**
Repurchase agreements – non-trading	**463,508**	**—**	**42,967**	**—**	**506,475**
Financial liabilities designated at fair value	**71,595**	**1,710,325**	**1,033,891**	**7,981**	**2,823,792**
Debt securities in issue	**349,937**	**442,988**	**507,669**	**700,000**	**2,000,594**
Other financial liabilities	**1,253,784**	**155,548**	**17,850**	**7,523**	**1,434,705**
	28,009,895	**4,179,319**	**4,164,017**	**715,504**	**37,068,735**
Loan and other credit-related commitments	**17,030,270**	**—**	**—**	**—**	**17,030,270**
Financial guarantees and similar contracts	**16,459,976**	**—**	**—**	**—**	**16,459,976**
	At 31 Dec 2019				
Financial assets					
Loans and advances to banks	4,987,957	391,826	417,640	—	5,797,423
Loans and advances to customers	7,984,365	2,929,053	5,930,993	2,816,824	19,661,235
Reverse repurchase agreements – non-trading	165,266	397,827	178,540	—	741,633
Financial investments	4,884,089	2,819,850	2,631,165	148,787	10,483,891
Other financial assets	762,679	264,362	192,082	—	1,219,123
	18,784,356	6,802,918	9,350,420	2,965,611	37,903,305
Financial liabilities					
Deposits by banks	1,565,371	362,435	1,878,464	—	3,806,270
Customer accounts	21,383,781	1,956,102	386,631	—	23,726,514
Repurchase agreements – non-trading	—	—	—	—	—
Financial liabilities designated at fair value	132,828	517,663	1,863,611	—	2,514,102
Debt securities in issue	200,353	—	888,133	700,000	1,788,486
Other financial liabilities	2,001,444	264,426	17,295	—	2,283,165
	25,283,777	3,100,626	5,034,134	700,000	34,118,537
Loan and other credit-related commitments	17,435,106	—	—	—	17,435,106
Financial guarantees and similar contracts	16,136,763	—	—	—	16,136,763

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	**612,777**	**1,768**	**363,433**	**2,509,716**	**—**
Customer accounts	**24,141,829**	**1,124,049**	**1,512,535**	**68,567**	**—**
Repurchase agreements – non-trading	**353,927**	**109,581**	**—**	**42,967**	**—**
Trading liabilities	**299,546**	**—**	**—**	**—**	**—**
Financial liabilities designated at fair value	**64,290**	**23,639**	**1,727,873**	**1,056,823**	**8,172**
Derivatives	**1,735,202**	**1,004**	**7,109**	**51,414**	**4,415**
Debt securities in issue	**—**	**354,304**	**450,530**	**527,778**	**716,011**
Other financial liabilities	**1,004,485**	**301,256**	**156,680**	**21,824**	**9,154**
	28,212,056	**1,915,601**	**4,218,160**	**4,279,089**	**737,752**
Loan and other credit-related commitments	**17,030,270**	**—**	**—**	**—**	**—**
Financial guarantees and similar contracts	**16,459,976**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**61,702,302**	**1,915,601**	**4,218,160**	**4,279,089**	**737,752**
Deposits by banks	1,465,893	101,385	366,417	1,967,570	—
Customer accounts	18,814,756	2,587,544	1,973,783	389,440	—
Repurchase agreements – non-trading	—	—	—	—	—
Trading liabilities	47,989	—	—	—	—
Financial liabilities designated at fair value	—	143,591	548,041	1,917,198	—
Derivatives	1,050,690	—	5,819	31,462	3,659
Debt securities in issue	—	206,759	4,420	912,112	722,383
Other financial liabilities	878,718	1,330,290	269,462	43,521	—
	22,258,046	4,369,569	3,167,942	5,261,303	726,042
Loan and other credit-related commitments	17,435,106	—	—	—	—
Financial guarantees and similar contracts	16,136,763	—	—	—	—
At 31 Dec 2019	55,829,915	4,369,569	3,167,942	5,261,303	726,042

Trading liabilities and trading derivatives have been included in the 'On demand' time bucket, and not by contractual maturity, because trading liabilities are typically held for short periods of time. The undiscounted cash flows on hedging derivative liabilities are classified according to their contractual maturity. The undiscounted cash flows potentially payable under financial guarantee contracts are classified on the basis of the earliest date they can be drawn down.

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

27 Offsetting of financial assets and financial liabilities

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 has been received/pledged.

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

	Amounts subject to enforceable netting arrangements						
				Amounts not set off in the balance sheet			
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount
	US$000	US$000	US$000	$000	US$000	US$000	US$000
Financial assets							
Derivatives (Note 14)	**1,879,242**	**–**	**1,879,242**	**(1,535,679)**	**(28,549)**	**–**	**315,014**
Reverse repos, stock borrowing and similar agreements classified as:	**1,828,851**	**–**	**1,828,851**	**–**	**(1,828,851)**	**–**	**–**
– non-trading assets	**1,828,851**	**–**	**1,828,851**	**–**	**(1,828,851)**	**–**	**–**
Loans and advances to customers excluding reverse repos at amortised cost[1]	**426,874**	**–**	**426,874**	**–**	**–**	**(126,143)**	**300,731**
At 31 Dec 2020	**4,134,967**	**–**	**4,134,967**	**(1,535,679)**	**(1,857,400)**	**(126,143)**	**615,745**
Derivatives (Note 14)	1,176,296	–	1,176,296	(798,325)	–	–	377,971
Reverse repos, stock borrowing and similar agreements classified as:	741,633	–	741,633	–	(741,633)	–	–
– non-trading assets	741,633	–	741,633	–	(741,633)	–	–
Loans and advances to customers excluding reverse repos at amortised cost[1]	729,638	–	729,638	–	–	(122,943)	606,695
At 31 Dec 2019	2,647,567	–	2,647,567	(798,325)	(741,633)	(122,943)	984,666
Financial liabilities							
Derivatives (Note 14)	**1,799,144**	**–**	**1,799,144**	**(1,535,679)**	**–**	**–**	**263,465**
At 31 Dec 2020	**1,799,144**	**–**	**1,799,144**	**(1,535,679)**	**–**	**–**	**263,465**
Derivatives (Note 14)	1,091,651	–	1,091,651	(798,325)	–	–	293,326
At 31 Dec 2019	1,091,651	–	1,091,651	(798,325)	–	–	293,326

1 *At 31 December 2020, the total amount of 'Loans and advances to customers' was US$19,351m (2019: US$19,661m), of which US$427m (2019: US$730m) was subject to offsetting.*

28 Foreign exchange exposure

Structural foreign exchange exposures

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

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

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

Net structural foreign currency exposures

Currency of structural exposure

	2020	2019
	US$000	US$000
Algerian dinar	151,573	158,042
Bahraini dinar	146,847	145,964
Kuwaiti dinar	254,686	249,857
Lebanese pound	177	291
Moroccan dirham	179	167
Qatari riyal	666,685	625,242
UAE dirham	3,867,051	4,104,883
Total	5,087,198	5,284,446

29 Called up share capital and share premium

Authorised

The authorised ordinary share capital of the Bank at 31 December 2020 was 1,500,000,000 (2019: 1,500,000,000) ordinary shares[1] of US$1.00 each.

Called up share capital and share premium

Issued and fully paid

		2020		2019	
	Footnotes	Number	US$000	Number	US$000
At 1 Jan		931,055,001	931,055	931,055,001	931,055
At 31 Dec	*1*	931,055,001	931,055	931,055,001	931,055

Share premium

	2020	2019
	US$000	US$000
At 31 Dec	61,346	61,346

Total called up share capital and share premium

	2020	2019
	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.*

30 Notes on the statement of cash flows

Non-cash items included in profit before tax

	2020	2019
	US$000	US$000
Depreciation, amortisation and impairment	52,575	43,948
Share-based payment expense	9,753	10,442
Change in expected credit losses and other credit impairment charges	662,390	142,792
Provisions including pensions	29,322	29,159
Other non-cash items included in profit before tax	5,471	(52,702)
	759,511	173,639

Change in operating assets

	2020	2019
	US$000	US$000
Change in other assets	618,785	17,904
Change in net trading securities and net derivatives	(286,403)	(25,169)
Change in loans and advances to banks and customers	(1,207,416)	553,322
Change in reverse repurchase agreements – non-trading	(613,510)	37,432
Change in financial assets designated at fair value	1,918	7,108
	(1,486,626)	590,597

Change in operating liabilities

	2020 US$000	2019 US$000
Change in other liabilities	**(1,503,981)**	1,403,555
Change in deposits by banks and customer accounts	**2,770,385**	4,126,800
Change in debt securities in issue	**212,108**	(701,885)
Change in financial liabilities designated at fair value	**451,684**	246,650
Change in repurchase agreements – non-trading	**506,475**	(2,999)
	2,436,671	5,072,121

Cash and cash equivalents

	2020 US$000	2019 US$000
Cash and balances at central banks	**1,240,991**	896,608
Items in the course of collection from other banks	**69,569**	78,992
Loans and advances to banks of one month or less	**5,714,370**	4,691,798
Reverse repurchase agreement with banks of one month or less	**531,563**	57,855
Net settlement accounts and cash collateral	**56,692**	606,555
Treasury bills, other bills and certificates of deposit less than three months	**200,300**	—
Less: items in the course of transmission to other banks	**(111,462)**	(186,234)
Total cash and cash equivalents	**7,702,023**	6,145,574

31 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 that 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 and pension risks). 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).

Risk governance and ownership

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

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

The Chief Risk Officer ('CRO'), supported by the RMM, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework. The CRO, who reports to the Chief Executive Officer ('CEO') and functionally to the Group CRO in the HSBC Group, heads the Risk Function, which is independent from the global businesses and forms part of the second line of defence. The executive accountability for the management of financial crime risk resides with the Chief Compliance Officer.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in identifying and managing risk within the scope of their roles. These roles are defined using the three lines of defence model. The first line of defence 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 risk. The third line of defence is the internal audit.

Risk appetite

Risk appetite, a key component of the group's risk management framework, is approved by the Board and defines the types and levels of risk that the group is willing to take in order to achieve our strategic objectives. The group's risk appetite is set out in the group's Risk Appetite Statement and is central to the annual planning process. The risk appetite statement consists of qualitative and quantitative metrics covering financial and non-financial risk.

Measurements against the metrics serve to:

- guide underlying business activity, ensuring it is aligned to risk appetite statements;
- determine risk-adjusted remuneration;
- enable the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identify business decisions needed to mitigate risk.

Top and emerging risks

The group uses a top and emerging risks process to provide a forward-looking view of issues that have the potential to threaten the execution of the group's strategy or operations over the medium to long term. We proactively assess the internal and external risk environment, as well as review the themes identified across our countries and global businesses, for any risks that may require global escalation, updating our top and emerging risks as necessary.

The group defines a 'top risk' as a thematic issue that may form and crystallise within one year, and that has the potential to materially affect the group's financial results, reputation or business model. It may arise across any combination of risk types, regions or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place. Stress tests of varying granularity may also have been carried out to assess the impact.

An 'emerging risk' is a thematic issue with large unknown components that may form and crystallise beyond a one-year time horizon. If it were to materialise, it could have a material effect on the group's long-term strategy, profitability and reputation. Existing mitigation plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage. Some high-level analysis and/or stress testing may have been carried out to assess the potential impact.

Our current top and emerging risks are described on page 74 of the *Annual Report and Accounts 2020.*

Stress testing and recovery planning

Stress testing is used to inform the level of adequate capital and liquidity to withstand external shocks, such as adverse macroeconomic or geopolitical events, failure at country, sector and counterparty levels or internal events including a variety of projected major operational risk events. Stress testing results are used by management to inform risk mitigation actions and support appropriate allocation of financial resources.

The group entities are included in the annual Group stress test submitted to the Bank of England as well as the Group Internal Stress Test. In addition, the group conducts regular macroeconomic and event-driven scenario analyses specific to the region ('Enterprise Wide Stress Tests'). The group is subject to regulatory stress testing in many jurisdictions within the region. These have increased both in frequency and in the granularity of information required by supervisors. Assessment by regulators is on both quantitative and qualitative bases, the latter focusing on portfolio quality, data provision, stress testing capability, forward-looking capital management processes and internal management processes.

Apart from the aforementioned Enterprise Wide Stress Tests the group also undertakes Reverse Stress Testing, which is conducted to examine a set of potential scenarios that may render the group's business model non-viable. Non-viability might occur before the group's capital is depleted, and could result from a variety of events, including idiosyncratic or systemic events or combinations thereof. Reverse stress testing is used to strengthen our resilience by helping to inform early-warning triggers, management actions and contingency plans designed to mitigate the potential stresses and vulnerabilities which we might face.

The results of aforementioned stress tests feed into the regional recovery plan and forms a part of the group's Internal Capital Adequacy Assessment Process submission to the regulator.

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.

Areas of special interest

Covid-19

2020 has been marked by unprecedented global economic events as a result of the Covid-19 pandemic. The impact of the pandemic has materially contributed to a US$538m increase in credit impairment charges with US$638m recorded in the income statement in 2020 compared to US$100m in 2019 during more benign credit conditions. Of the total increase, US$234m is in respect of Stage 1 and Stage 2 expected credit loss ('ECL'), US$255m in respect of Wholesale Stage 3 ECL and the remainder in respect of Retail Stage 3 ECL and other credit impairment charges. The outlook for ECL is highly uncertain and remains dependent on the future path of the Covid-19 outbreak, including the successful deployment of vaccination programmes, and the credit quality of our loan portfolio as government stimulus and support is withdrawn.

Stage 1 and 2 ECL is estimated for our credit portfolios by taking into account relevant information about past events, current conditions and forecasts of future conditions. The deterioration in the forward economic outlook as a result of Covid-19 has led to a significant increase in Stage 1 and Stage 2 ECL in 2020. In light of the rapid spread of Covid-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty. Restrictions on mobility implemented by governments the world over to limit the spread of the coronavirus resulted in a significant weakening in GDP in all our markets as well as lower oil prices, key inputs used for calculating ECL. Countries and sectors have rebounded to differing levels from their previous low points and economic consensus forecasts have stabilized in recent months, with a 'V' shaped recovery still predicted for 2021, however there is a wide dispersion in forecasts and these have yet to incorporate fully the adverse effect of the recent rising infection rates and renewed lockdowns in a number of countries as well as the positive effects of the roll-out of vaccines. Notwithstanding the potential for recovery in 2021, GDP levels are unlikely to return to pre-Covid-19 levels until later years.

Wholesale Stage 3 ECLs are losses recognised for individual customer exposures that are in default and for which there is little prospect of future recovery. The impact of the pandemic has led to an increase in Wholesale Stage 3 ECL, however there have also been credit impairments due to factors not directly related to Covid-19, including significant charges in the UAE in respect of a customer in the

Health Care sector and a customer in the Services sector. There remain significant uncertainties in assessing the duration and impact of the Covid-19 impact and it may lead to significant ECL charges on specific exposures which may not be fully captured in ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges. As the external environment remains challenging and fraudulent activity is more prevalent, we are working to enhance our financial risk management tools and capabilities to help with the detection of financial statement misrepresentation and trade finance loan abuse.

The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have impacted the performance of financial models used to calculate ECL. This has required more ongoing monitoring and testing, the recalibration of some models and it has also resulted in management judgmental adjustments made to our ECL provisions. There is a risk that future actual results may differ from such judgments and assumptions.

Throughout the outbreak, we have continued to support our customers and have adapted our operational processes. Our business continuity responses have been successfully implemented and we have maintained high levels of service to our customers through this time. The implementation of large-scale changes to our procedures in a short period of time has led to increased operational risk, including conduct, fraud, legal and reputational risks, but no significant incidents have occurred to date. We continue to monitor the situation closely.

The Group's balance sheet and liquidity has remained strong which has allowed us to support our customers during this period.

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

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

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

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

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

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

	Loans and advances to customers				ECL on loans and advances to customers		Customer deferral			
							Group 1		Group 2	
	Total gross loans	Deferral amount[1]	% of gross loans[2]	Exposure at default	Total ECL[3]	*Of which ECL adjustments[4]*	Deferral amount	ECL[5]	Deferral amount	ECL[5]
At 31 Dec 2020	**US$000**	**US$000**		**US$000**	**US$000**	***US$000***	**US$000**	**US$000**	**US$000**	**US$000**
Personal										
– residential mortgages	1,841,053	22	–	2,547	(38,135)	*1,592*	18	–	4	–
– other personal	1,157,609	407	0.04	3,851	(163,013)	*1,021*	257	26	150	82
	2,998,662	429	0.01	6,398	(201,148)	*2,613*	275	26	154	82
Corporate and commercial										
– commercial, industrial and international trade	6,084,514	58,004	0.95	181,386	(374,041)	*(104,638)*	24,612	456	33,392	2,092
– commercial real estate and other property-related	2,073,074	97,573	4.71	500,482	(324,132)	*2,220*	19,061	846	78,512	3,194
– government	1,342,671	–	–	–	(1,772)	–	–	–	–	–
– other commercial	2,412,966	12,522	0.52	169,238	(302,278)	–	11,432	576	1,090	37
	11,913,225	168,099	1.41	851,106	(1,002,223)	*(102,418)*	55,105	1,878	112,994	5,323
Financial										
– non-bank financial institutions	170,427	–	–	–	(2,390)	–	–	–	–	–
Total	**15,082,314**	**168,528**	**1.12**	**857,504**	**(1,205,761)**	***(99,805)***	**55,380**	**1,904**	**113,148**	**5,405**

1 *This is the deferral amount provided to customers in the UAE in accordance with the Joint Guidance. The total amount of gross loans subject to deferral were US$843m, representing an Exposure at Default of US$858m. As of 31 December 2020, HBME UAE has availed US$0.12b out of the total TESS facility of US$0.46b provided by the UAE Central Bank.*
2 *This is calculated as a percentage of deferral amount to total gross loans.*
3 *Total ECL includes Stage 1 and 2 ECL of US$268m and Stage 3 ECL of US$938m.*
4 *These are expert credit adjustments made to the model output and have been necessary to reflect management's best estimate of ECL in accordance with IFRS 9 and the Joint Guidance.*
5 *The ECL amount relates to the deferred instalments and has been computed on a pro-rata basis based on the ECL on the total outstanding facility amount.*

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

	Gross carrying value			ECL		
	31 Dec 2020	31 Dec 2019		**31 Dec 2020**	31 Dec 2019	
At 31 Dec 2020	**US$000**	US$000	**% change**	**US$000**	US$000	**% change**
Personal						
– residential mortgages	**1,841,053**	1,921,168	**(4.17)**	**(38,135)**	(59,024)	**(35.39)**
– other personal	**1,157,609**	1,462,067	**(20.82)**	**(163,013)**	(120,758)	**34.99**
	2,998,662	3,383,235	**(11.37)**	**(201,148)**	(179,782)	**11.88**
Corporate and commercial						
– commercial, industrial and international trade	**6,084,514**	6,474,342	**(6.02)**	**(374,041)**	(267,928)	**39.61**
– commercial real estate and other property-related	**2,073,074**	2,226,576	**(6.89)**	**(324,132)**	(293,684)	**10.37**
– government	**1,342,671**	1,468,378	**(8.56)**	**(1,772)**	(428)	**314.02**
– other commercial	**2,412,966**	1,950,204	**23.73**	**(302,278)**	(92,831)	**225.62**
	11,913,225	12,119,500	**(1.70)**	**(1,002,223)**	(654,871)	**53.04**
Financial						
– non-bank financial institutions	**170,427**	122,172	**39.50**	**(2,390)**	(7,208)	**(66.84)**
Total	**15,082,314**	15,624,907	**(3.47)**	**(1,205,761)**	(841,861)	**43.23**
Exposure at default	**14,277,816**	15,104,025	**(5.47)**	**N/A**	N/A	**N/A**

Clients benefiting from deferrals – UAE			**Number of clients deferred**	**Payment deferrals**	**Exposure**	**Impairment Allowance**
At 31 Dec 2020				**US$000**	**US$000**	**US$000**
Segment	**Stage**	**Group**				
Retail banking	Stage 1	Group 1	**65**	**228**	**4,713**	**52**
		Group 2	**—**	**—**	**—**	**—**
	Total Stage 1		**65**	**228**	**4,713**	**52**
	Stage 2	Group 1	**19**	**48**	**272**	**118**
		Group 2	**75**	**147**	**1,276**	**620**
	Total Stage 2		**94**	**195**	**1,548**	**738**
	Stage 3	Group 1	**—**	**—**	**—**	**—**
		Group 2	**2**	**6**	**181**	**46**
	Total Stage 3		**2**	**6**	**181**	**46**
Total retail banking			**161**	**429**	**6,442**	**836**
Wholesale banking	Stage 1	Group 1	**4**	**32,804**	**113,181**	**3,998**
		Group 2	**1**	**14,746**	**63,400**	**667**
	Total Stage 1		**5**	**47,550**	**176,581**	**4,665**
	Stage 2	Group 1	**10**	**22,300**	**206,491**	**8,284**
	Total Stage 2	Group 2	**17**	**79,532**	**434,888**	**26,902**
			27	**101,832**	**641,379**	**35,186**
	Stage 3	Group 1	**—**	**—**	**—**	**—**
		Group 2	**5**	**18,717**	**18,717**	**2,675**
	Total Stage 3		**5**	**18,717**	**18,717**	**2,675**
Total wholesale banking			**37**	**168,099**	**836,677**	**42,526**

ECL movement during the year – UAE

	Not credit impaired		**Credit impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 31 Dec 2020	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Personal					
ECL allowance as of start of year	**24,307**	**43,280**	**112,596**	**—**	**180,183**
– residential mortgages	**630**	**4,662**	**(25,396)**	**—**	**(20,104)**
– other personal	**(1,052)**	**45,294**	**(2,370)**	**—**	**41,872**
ECL allowance as of end of year	**23,885**	**93,236**	**84,830**	**—**	**201,951**
Corporate and commercial					
ECL allowance as of start of year	**38,821**	**31,851**	**591,796**	**7,760**	**670,228**
– Corporates	**6,426**	**93,698**	**263,913**	**(3,511)**	**360,526**
– government	**1,045**	**5,389**	**—**	**—**	**6,434**
– non-bank financial institutions	**(337)**	**2,835**	**(7,070)**	**—**	**(4,572)**
– Banks	**300**	**204**	**—**	**—**	**504**
ECL allowance as of end of year	**46,255**	**133,977**	**848,639**	**4,249**	**1,033,120**

ECL adjustments[1] – UAE As at 31 Dec	Non-Covid related ECL adjustments US$000	Covid related ECL adjustments US$000	Total ECL adjustments US$000
Retail banking loans:			
– residential mortgages	1,592	–	1,592
– other personal	–	1,021	1,021
Total retail banking loans	**1,592**	**1,021**	**2,613**
Wholesale banking loans:			
– Non-government obligors	–	(102,418)	(102,418)
Total wholesale banking loans	**–**	**(102,418)**	**(102,418)**

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

Ibor transition

Regulators and central banks in various jurisdictions have convened national working groups ('NWGs') to identify replacement rates for the Ibors that will not be used beyond 2021 and, where appropriate, to facilitate an orderly transition to these rates.

Given the current lack of alternatives, the group has contracts referencing Ibors with maturities beyond 2021. The group is part of HSBC Group's Ibor transition programme with the objective of facilitating an orderly transition from Ibors for the group and its clients. This global programme oversees the transition by each of the global businesses and is led by the Group Chief Risk Officer. The programme is currently focused on developing alternative rate products, and the supporting processes and systems, that reference the NWG-selected replacement rates and making them available to customers. The programme is concurrently developing the capability to transition, through repapering outstanding Ibor contracts. Substantial change has been undertaken to develop products that reference the replacement rates and enable the transition of legacy Ibor contracts which exposes the group to material execution, financial and non-financial risks. Throughout 2020, the Ibor transition programme has continued to implement the required IT and operational changes necessary for an orderly transition from demising Ibors to the replacement nearly risk free rates ('RFRs').

Development of alternative rate product capabilities

All global businesses are actively developing and implementing system and operational capabilities for alternative rates products. These developments have additionally enabled the removal of Ibor-related products from sale to reduce the associated risks. Ibor sales continue however exposures relating to post-2021 maturities are expected to reduce as a result of new product availability and as market liquidity builds in alternative RFRs.

Our businesses continue to develop their capabilities to offer Risk-free rates ('RFR') based products and the supporting processes and systems. Covid-19 has impacted the speed with which we are able to develop these capabilities and many of our customers' readiness to adopt RFR-based products. Consequently, the sale of Ibor contracts with maturities beyond 2021 (legacy contracts) will continue for longer than initially anticipated and is likely to increase the volume of legacy contracts that will need to be transitioned.

Transition legacy contracts

In addition to offering new alternative rate based products, the new product capabilities will also help enable the transition of outstanding Ibor products. The group has begun to engage clients to determine their ability to transition in line with the readiness of the alternative rate product availability. Covid-19 may have affected the ability of clients to transition early and could result in compressed timelines for Ibor transition. Therefore, development and use of appropriate migration tools, and industry initiatives such as the International Swaps and Derivatives Association ('ISDA') protocol will be necessary to enable a more ordered transition coupled with legislative approaches for the products which are structurally difficult to transition.

In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, thus potentially increasing the level of conduct and operational risks. Our plans are being adjusted to reflect both the greater effort required and associated risks.

In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships. Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in Ibor-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of Ibor with alternative reference rates. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

Mitigating actions

- The global Ibor transition programme is in place to facilitate an orderly transition to replacement rates for our business and our clients and is overseen by the Group Chief Risk Officer.
- Development of, and transition to alternative rate products is supported by extensive training, communication and client engagement to facilitate appropriate selection of products.
- IT and operational change is being implemented to enable a longer transition window.
- Business line risks have been assessed and are dynamically monitored and overseen, with specific mitigation linked to programme deliverables.
- We continue to actively engage with regulatory and industry bodies to mitigate risks relating to hedge accounting changes, multiple loan conventions, and contracts that are unable to transition.

Financial instruments impacted by Ibor reform

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

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

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

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD Libor	GBP Libor	JPY Libor	Others
At 31 Dec 2020	**US$000**	**US$000**	**US$000**	**US$000**
Non-derivative financial assets	**6,603,654**	**10,428**	**–**	**–**
Non-derivative financial liabilities	**3,679,653**	**–**	**–**	**–**
Derivative notional contract amount	**27,755,353**	**–**	**–**	**–**

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

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 31 December 2021, the date by which Libor is expected to cease;
- are recognised on the group's consolidated balance sheet

The administrator of Libor, ICE Benchmark Administration ('IBA'), has announced a proposal to extend the publication date of most USD Libor tenors until 30 June 2023. Publication of one week and two month tenors will cease after 31 December 2021. This proposal, if endorsed, would moderately reduce the amounts presented in the above table as some financial instruments included will reach their contractual maturity date prior to 30 June 2023.

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 IFRS9 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 group CEO and with the authority to sub-delegate them. The Credit Risk sub-function is headed by the CRO and is responsible for key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

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

IFRS9 Financial Instruments Process

We have established IFRS9 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. Regional management review forums with representatives from Credit Risk and Finance are established in key sites in order 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.

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.

Renegotiated loans and forbearance

'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. A loan is classified as 'renegotiated' when we modify the contractual payment terms on concessionary terms because we have significant concerns about the borrower's ability to meet contractual payments when due. Non-payment-related concessions (e.g.covenant waivers), while potential indicators of impairment, do not trigger identification as renegotiated loans. Loans that have been identified as renegotiated retain this designation until maturity or derecognition. On execution of renegotiation, the loan will also be classified as credit impaired if it is not already so classified. In wholesale lending, all facilities with a customer including loans that have not been modified are considered credit impaired following the identification of a renegotiated loan until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. Personal renegotiated loans generally remain credit impaired until repayment, write-off or derecognition.

For retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans are typically assessed individually and take into account the higher risk of the future non-payment inherent in renegotiated loans.

Impairment Assessment

It is the group's policy to create allowances for impaired loans promptly and consistently.

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

Write-off of loans and advances

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

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

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

Summary of credit risk

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

The IFRS 9 allowance for ECL has increased from US$986m at 31 December 2019 to US$1,411m at 31 December 2020.

The IFRS 9 allowance for ECL at 31 December 2020 comprises US$ 1,358m (2019: US$964m) in respect of assets held at amortised cost and US$53m (2019: US$22m) in respect of loan commitments and financial guarantees.

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

	31 Dec 2020		31 Dec 2019	
	Gross carrying/nominal amount	**Allowance for ECL**	Gross carrying/nominal amount	Allowance for ECL
	US$000	**US$000**	US$000	US$000
Loans and advances to customers at amortised cost	**20,696,401**	**(1,345,685)**	20,616,496	(955,261)
Loans and advances to banks at amortised cost	**7,746,251**	**(3,827)**	5,798,901	(1,478)
Other financial assets measured at amortised costs	**4,012,810**	**(8,197)**	2,892,317	(7,342)
– cash and balances at central banks	**1,241,854**	**(863)**	896,922	(314)
– items in the course of collection from other banks	**69,569**	**—**	78,992	—
– reverse repurchase agreements – non-trading	**1,828,851**	**—**	741,661	(28)
– prepayments, accrued income and other assets	**872,536**	**(7,334)**	1,174,742	(7,000)
Total gross carrying amount on-balance sheet	**32,455,462**	**(1,357,709)**	29,307,714	(964,081)
Loans and other credit related commitments	**6,639,554**	**(36,535)**	6,319,523	(15,939)
Financial guarantees	**1,217,383**	**(16,675)**	1,553,668	(6,037)
Total nominal amount off-balance sheet	**7,856,937**	**(53,210)**	7,873,191	(21,976)

	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)	**10,068,873**	**(2,758)**	10,438,722	(1,485)

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 2020

	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	**13,361,211**	**5,872,001**	**1,449,336**	**13,853**	**20,696,401**	**(94,003)**	**(244,803)**	**(1,005,380)**	**(1,499)**	**(1,345,685)**
Loans and advances to banks at amortised cost	**7,599,139**	**147,112**	**—**	**—**	**7,746,251**	**(2,717)**	**(1,110)**	**—**	**—**	**(3,827)**
Other financial assets measured at amortised cost	**3,893,057**	**114,132**	**5,621**	**—**	**4,012,810**	**(2,280)**	**(1,643)**	**(4,274)**	**—**	**(8,197)**
Loan and other credit-related commitments	**5,611,694**	**977,570**	**50,290**	**—**	**6,639,554**	**(9,578)**	**(26,824)**	**(133)**	**—**	**(36,535)**
Financial guarantees	**947,092**	**257,612**	**12,679**	**—**	**1,217,383**	**(3,671)**	**(13,002)**	**(2)**	**—**	**(16,675)**
At 31 Dec 2020	**31,412,193**	**7,368,427**	**1,517,926**	**13,853**	**40,312,399**	**(112,249)**	**(287,382)**	**(1,009,789)**	**(1,499)**	**(1,410,919)**

	ECL coverage %				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	%	**%**	**%**	**%**	**%**
Loans and advances to customers at amortised cost	**0.7**	**4.2**	**69.4**	**10.8**	**6.5**
Loans and advances to banks at amortised cost	**—**	**0.8**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**0.1**	**1.4**	**76.0**	**—**	**(0.2)**
Loan and other credit-related commitments	**0.2**	**2.7**	**0.3**	**—**	**0.6**
Financial guarantees	**0.4**	**5.0**	**—**	**—**	**1.4**
At 31 Dec 2020	**0.4**	**3.9**	**66.5**	**10.8**	**3.5**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2019

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Loans and advances to customers at amortised cost	17,507,463	1,907,875	1,198,711	2,447	20,616,496	(68,462)	(87,128)	(798,178)	(1,493)	(955,261)
Loans and advances to banks at amortised cost	5,788,598	10,303	—	—	5,798,901	(1,420)	(58)	—	—	(1,478)
Other financial assets measured at amortised cost	2,801,122	85,307	5,888	—	2,892,317	(1,159)	(295)	(5,888)	—	(7,342)
Loan and other credit related commitments	5,921,696	391,018	6,809	—	6,319,523	(8,839)	(7,100)	—	—	(15,939)
Financial guarantees	1,432,963	111,318	9,387	—	1,553,668	(2,023)	(3,994)	(20)	—	(6,037)
At 31 Dec 2019	33,451,842	2,505,821	1,220,795	2,447	37,180,905	(81,903)	(98,575)	(804,086)	(1,493)	(986,057)

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2019 (continued)

	ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total
	%	%	%	%	%
Loans and advances to customers at amortised cost	0.4	4.6	66.6	61.0	4.6
Loans and advances to banks at amortised cost	—	0.6	—	—	—
Other financial assets measured at amortised cost	—	0.3	100.0	—	0.3
Loan and other credit related commitments	0.1	1.8	—	—	0.3
Financial guarantees	0.1	3.6	0.2	—	0.4
At 31 Dec 2019	0.2	3.9	65.9	61.0	2.7

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 the use of multiple economic scenarios to reflect assumptions about future economic conditions starting with three economic scenarios, based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management's judgement, the consensus forecast distribution does not adequately capture the relevant risks.

The three economic scenarios represent the 'most likely outcome' (the Central scenario), and two less likely outcomes, referred to as the Upside and Downside scenarios. In normal circumstances, each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%, according to the decision of the group's senior management. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. Key economic assumptions in the Central scenario are set using the average of forecasts of external economists, helping to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

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

The Upside and Downside scenarios are designed to be cyclical, in that assumptions such as GDP growth usually revert back to the Central scenario after the first three years for major economies. We determine the maximum divergence of GDP growth from the Central scenario using the 10th and the 90th percentile of the entire distribution of forecast outcomes for major economies. We use externally available forecast distributions to help ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks captured in the group's Top and Emerging Risks. This ensures that scenarios remain consistent with the more qualitative assessment of these risks. We project additional variable paths using the external provider's global macro model.

Additional scenarios are created and probability weightage assigned to each scenario are revisited, as required, to address those forward-looking risks that management considers are not adequately captured by the consensus.

In light of the current uncertain economic environment, an alternative Downside scenario ('Additional Downside') has been included and the scenario weighting has been re-assessed to reflect management's view of extreme risks. Central scenario has been assigned a weighting of 65%, the Downside scenario 25% and the Upside and Additional Downside 5% each, according to the decision of the group's senior management.

Description of Consensus Economic Scenarios

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

Central scenario (2021Q1–2025Q4)

	UAE
Probability (%)	**65**
GDP growth rate (%)	
2020: Annual average growth rate	**(6.3)**
2021: Annual average growth rate	**3.0**
2022: Annual average growth rate	**3.6**
2023: Annual average growth rate	**3.9**
5-year average	**3.4**
Oil price (US$)	
2020: Average oil price	**42.2**
2021: Average oil price	**44.3**
2022: Averahe oil price	**45.7**
2023: Average oil price	**47.0**
5-year average	**45.9**
House price growth (%)	
2020: Annual average growth rate	**(11.6)**
2021: Annual average growth rate	**(9.8)**
2022: Annual average growth rate	**(1.3)**
2023: Annual average growth rate	**2.6**
5-year average	**–**

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

Outer scenarios (less likely)

	UAE		
	Consensus Upside scenario	Consensus Downside scenario	Additional Downside scenario
Probability (%)	**5**	**25**	**5**
GDP growth rate (%)	**13.8 (4Q21)**	**(7.3) (1Q21)**	**(12.2) (1Q21)**
Oil price (US$)	**81.03 (4Q21)**	**26.26 (4Q21)**	**17.31 (1Q22)**
House price growth (%)	**18.5 (1Q22)**	**(19.2) (2Q21)**	**(22.9) (2Q21)**

How economic scenarios are reflected in the wholesale calculation of ECL

HSBC has developed a globally consistent methodology for the application of forward economic guidance into the calculation of ECL by incorporating these scenarios into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

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

ECL based exposures at 31 December 2020[1]

	UAE	
	2020	2019
Reported ECL (US$m)[2]	**250**	97
Gross carrying/nominal amount (US$m)[3]	**44,777**	42,304
Consensus Central scenario	**241**	97
Consensus Upside scenario	**190**	89
Consensus Downside scenario	**330**	108
Additional Downside scenario	**536**	NA

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

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

IFRS 9 ECL sensitivity to future economic conditions[1]

US$m	UAE					
	Gross carrying amount	**Reported ECL[2]**	**Central scenario ECL**	**Upside scenario ECL**	**Downside scenario ECL**	**Additional Downside scenario ECL**
Mortgages	**1,889**	**66**	**63**	**53**	**73**	**78**
Credit cards	**426**	**92**	**81**	**62**	**107**	**126**
Other	**683**	**38**	**37**	**33**	**41**	**46**

IFRS 9 ECL sensitivity to future economic conditions[1]

US$m	UAE					
	Gross carrying amount	Reported ECL[2]	Central scenario ECL	Upside scenario ECL	Downside scenario ECL	Additional Downside scenario ECL
Mortgages	1,983	92	92	83	91	NA
Credit cards	513	54	54	49	72	NA
Other	895	28	28	26	31	NA

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

Economic scenarios sensitivity analysis of ECL estimates

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

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

Credit exposure

Maximum exposure to credit risk

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

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

The offset in the table relate 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.

In the case of derivatives and reverse repos the offset column also includes collateral received in cash and other financial assets.

Maximum exposure to credit risk

	2020			2019		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
	US$000	**US$000**	**US$000**	US$000	US$000	US$000
Loans and advances to customers held at amortised cost	**19,350,716**	**(126,143)**	**19,224,573**	19,661,235	(122,943)	19,538,292
Loans and advances to banks held at amortised cost	**7,742,424**	**–**	**7,742,424**	5,797,423	–	5,797,423
Other financial assets measured at amortised costs	**14,070,728**	**(1,828,851)**	**12,241,877**	13,322,212	(741,633)	12,580,579
– cash and balances at central banks	**1,240,991**	**–**	**1,240,991**	896,608	–	896,608
– items in the course of collection from other banks	**69,569**	**–**	**69,569**	78,992	–	78,992
– reverse repurchase agreements – non-trading	**1,828,851**	**(1,828,851)**	**–**	741,633	(741,633)	–
– financial investments	**10,066,115**	**–**	**10,066,115**	10,437,237	–	10,437,237
– prepayments, accrued income and other assets	**865,202**	**–**	**865,202**	1,167,742	–	1,167,742
Derivatives	**1,879,242**	**(1,535,679)**	**343,563**	1,176,296	(798,325)	377,971
Total off-balance sheet	**23,247,532**	**–**	**23,247,532**	24,161,448	–	24,161,448
– financial guarantees and similar contracts	**6,217,262**	**–**	**6,217,262**	6,726,342	–	6,726,342
– loan and other credit-related commitments	**17,030,270**	**–**	**17,030,270**	17,435,106	–	17,435,106

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

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

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

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2020

	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 2020	**30,650,720**	**(80,744)**	**2,420,514**	**(98,280)**	**1,214,907**	**(798,198)**	**2,447**	**(1,493)**	**34,288,588**	**(978,715)**
Transfers of financial instruments:	**(7,783,688)**	**(14,796)**	**7,174,093**	**94,873**	**609,595**	**(80,077)**	**–**	**–**	**–**	**–**
– Transfers from Stage 1 to Stage 2	(11,841,009)	67,441	11,841,009	(67,441)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	4,367,933	(83,322)	(4,367,933)	83,322	–	–	–	–	–	–
– Transfers to Stage 3	(310,612)	1,085	(342,555)	85,836	653,167	(86,921)	–	–	–	–
– Transfers from Stage 3	–	–	43,572	(6,844)	(43,572)	6,844	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	**–**	**24,828**	**–**	**(93,430)**	**–**	**(6,246)**	**–**	**–**	**–**	**(74,848)**
Net new and further lending / (repayments) and changes in risk parameters	**4,742,554**	**(37,247)**	**(2,322,761)**	**(189,022)**	**(93,734)**	**(329,412)**	**11,759**	**–**	**2,337,818**	**(555,681)**
Assets written off	**–**	**–**	**–**	**–**	**(217,718)**	**217,718**	**(257)**	**257**	**(217,975)**	**217,975**
Foreign exchange and others	**(90,450)**	**81**	**(17,552)**	**264**	**(745)**	**658**	**–**	**–**	**(108,747)**	**1,003**
Others	**–**	**(2,091)**	**–**	**(144)**	**–**	**(9,958)**	**(96)**	**(263)**	**(96)**	**(12,456)**
At 31 Dec 2020	**27,519,136**	**(109,969)**	**7,254,294**	**(285,739)**	**1,512,305**	**(1,005,515)**	**13,853**	**(1,499)**	**36,299,588**	**(1,402,722)**
ECL release/(charge) for the period	**–**	**(12,419)**	**–**	**(282,452)**	**–**	**(335,658)**	**–**	**–**	**–**	**(630,529)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**23,320**	**–**	**–**	**–**	**23,320**
Others	**–**	**–**	**–**	**–**	**–**	**930**	**–**	**–**	**–**	**930**
Total ECL Charge for the period	**–**	**(12,419)**	**–**	**(282,452)**	**–**	**(311,408)**	**–**	**–**	**–**	**(606,279)**

	At 31 Dec 2020		Twelve months ended 31 Dec 2020
	Gross carrying/nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	**36,299,588**	**(1,402,722)**	**(606,279)**
Other financial assets measured at amortised cost	**4,012,810**	**(8,197)**	**(116)**
Other instruments not within the scope of IFRS 9			**(30,584)**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	**40,312,398**	**(1,410,919)**	**(636,979)**
Debt instruments measured at FVOCI	**10,068,873**	**(2,758)**	**(1,292)**
Change in expected credit losses and other credit impairment charges	**N/A**	**(1,413,677)**	**(638,271)**

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 2019 (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 2019	29,505,799	(71,585)	2,813,607	(100,676)	1,312,443	(864,817)	36,778	(36,778)	33,668,627	(1,073,856)
Transfers of financial instruments:	(198,307)	(22,794)	(174,672)	74,049	372,979	(51,255)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(2,998,583)	10,128	2,998,583	(10,128)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	2,940,276	(32,939)	(2,940,276)	32,939	—	—	—	—	—	—
– Transfers to Stage 3	(140,000)	17	(254,287)	58,473	394,287	(58,490)	—	—	—	—
– Transfers from Stage 3	—	—	21,308	(7,235)	(21,308)	7,235	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	21,443	—	(21,191)	—	(15,276)	—	—	—	(15,024)
Net new and further lending / (repayments) and changes in risk parameters	1,346,240	(10,221)	(216,980)	(50,567)	(218,061)	(66,632)	—	—	911,199	(127,420)
Assets written off	—	—	—	—	(252,997)	252,997	(35,281)	35,281	(288,278)	288,278
Foreign exchange and others	(2,987)	5	(1,441)	13	543	(244)	2	(2)	(3,883)	(228)
Others	(25)	2,408	—	92		(52,971)	948	6	923	(50,465)
At 31 Dec 2019	30,650,720	(80,744)	2,420,514	(98,280)	1,214,907	(798,198)	2,447	(1,493)	34,288,588	(978,715)
ECL release/(charge) for the period	—	11,222	—	(71,758)	—	(81,908)	—	—	—	(142,444)
Recoveries	—	—	—	—	—	33,749	—	—	—	33,749
Others	—	—	—	—	—	4,501	—	—	—	4,501
Total ECL Charge for the period	—	11,222	—	(71,758)	—	(43,658)	—	—	—	(104,194)

	At 31 Dec 2019		Twelve months ended 31 Dec 2019
	Gross carrying/nominal amount	Allowance for ECL	ECL and other credit charges
	US$000	US$000	US$000
As above	34,288,588	(978,715)	(104,194)
Other financial assets measured at amortised cost	2,892,317	(7,342)	15,641
Other instruments not within the scope of IFRS 9			(11,064)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	37,180,905	(986,057)	(99,617)
Debt instruments measured at FVOCI	10,438,722	(1,485)	(373)
Change in expected credit losses and other credit impairment charges	N/A	(892,401)	(99,990)

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 2020

	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 2020	**25,125,914**	**(52,210)**	**2,251,660**	**(50,977)**	**1,020,812**	**(673,930)**	**2,447**	**(1,493)**	**28,400,833**	**(778,610)**
Transfers of financial instruments	**(7,434,239)**	**1,281**	**6,929,253**	**22,915**	**504,986**	**(24,196)**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**12,931**	**—**	**(71,392)**	**—**	**(5,933)**	**—**	**—**	**—**	**(64,394)**
Net new and further lending / (repayments) and changes in risk parameters	**5,107,903**	**(38,780)**	**(2,205,752)**	**(86,575)**	**(70,152)**	**(296,394)**	**11,759**	**—**	**2,843,758**	**(421,749)**
Assets written off	**—**	**—**	**—**	**—**	**(100,795)**	**100,795**	**(257)**	**257**	**(101,052)**	**101,052**
Foreign exchange and others	**(86,868)**	**79**	**(17,560)**	**259**	**(655)**	**573**	**—**	**—**	**(105,083)**	**911**
Others	**—**	**(2,089)**		**(145)**	**—**	**(9,969)**	**(96)**	**(263)**	**(96)**	**(12,466)**
At 31 Dec 2020	**22,712,710**	**(78,788)**	**6,957,601**	**(185,915)**	**1,354,196**	**(909,054)**	**13,853**	**(1,499)**	**31,038,360**	**(1,175,256)**
ECL release/(charge) for the period	**—**	**(25,849)**	**—**	**(157,967)**	**—**	**(302,327)**	**—**	**—**	**—**	**(486,143)**
Recoveries	**—**	**—**	**—**	**—**	**—**	**7,263**	**—**	**—**	**—**	**7,263**
Others	**—**	**—**	**—**	**—**	**—**	**923**	**—**	**—**	**—**	**923**
Total ECL Charge for the period	**—**	**(25,849)**	**—**	**(157,967)**	**—**	**(294,141)**	**—**	**—**	**—**	**(477,957)**
At 1 Jan 2019	24,006,494	(40,461)	2,604,902	(57,272)	1,060,630	(712,193)	36,778	(36,778)	27,708,804	(846,704)
Transfers of financial instruments:	(116,213)	(17,010)	(164,925)	26,462	281,138	(9,452)	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	16,210	—	(16,977)	—	(12,283)	—	—	—	(13,050)
Net new and further lending / (repayments) and changes in risk parameters	1,238,291	(13,243)	(186,876)	(3,295)	(166,965)	(41,367)	—	—	884,450	(57,905)
Assets written off	—	—	—	—	(154,534)	154,534	(35,281)	35,281	(189,815)	189,815
Foreign exchange and others	(2,633)	5	(1,441)	13	543	(248)	2	(2)	(3,529)	(232)
Others	(25)	2,289	—	92	—	(52,921)	948	6	923	(50,534)
At 31 Dec 2019	25,125,914	(52,210)	2,251,660	(50,977)	1,020,812	(673,930)	2,447	(1,493)	28,400,833	(778,610)
ECL release/(charge) for the period	—	2,967	—	(20,272)	—	(53,650)	—	—	—	(70,955)
Recoveries	—	—	—	—	—	9,767	—	—	—	9,767
Others	—	—	—	—	—	4,370	—	—	—	4,370
Total ECL Charge for the period	—	2,967	—	(20,272)	—	(39,513)	—	—	—	(56,818)

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 2020

	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 2020	**5,524,806**	**(28,534)**	**168,854**	**(47,303)**	**194,095**	**(124,268)**	**5,887,755**	**(200,105)**
Transfers of financial instruments:	**(349,450)**	**(16,079)**	**244,841**	**71,960**	**104,609**	**(55,881)**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**11,896**	**–**	**(22,038)**	**–**	**(280)**	**–**	**(10,422)**
Net new and further lending / (repayments) and changes in risk parameters	**(365,350)**	**1,534**	**(117,009)**	**(102,447)**	**(23,582)**	**(33,017)**	**(505,941)**	**(133,930)**
Assets written off	**–**	**–**	**–**	**–**	**(116,923)**	**116,923**	**(116,923)**	**116,923**
Foreign exchange and others	**(3,580)**	**2**	**8**	**4**	**(90)**	**85**	**(3,662)**	**91**
Others	**–**	**–**	**–**	**–**	**–**	**(23)**	**–**	**(23)**
At 31 Dec 2020	**4,806,426**	**(31,181)**	**296,694**	**(99,824)**	**158,109**	**(96,461)**	**5,261,229**	**(227,466)**
ECL release/(charge) for the period	**–**	**13,430**		**(124,485)**		**(33,296)**	**–**	**(144,351)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**16,057**	**–**	**16,057**
Others	**–**	**–**	**–**	**–**	**–**	**(28)**	**–**	**(28)**
Total ECL Charge for the period	**–**	**13,430**	**–**	**(124,485)**	**–**	**(17,267)**	**–**	**(128,322)**
At 1 Jan 2019	5,499,305	(31,124)	208,705	(43,404)	251,813	(152,624)	5,959,823	(227,152)
Transfers of financial instruments:	(82,094)	(5,784)	(9,747)	47,587	91,841	(41,803)	–	–
Net remeasurement of ECL arising from transfer of stage	–	5,233	–	(4,214)	–	(2,993)	–	(1,974)
Net new and further lending / (repayments) and changes in risk parameters	107,949	3,022	(30,104)	(47,272)	(51,096)	(25,265)	26,749	(69,515)
Assets written off	–	–	–	–	(98,463)	98,463	(98,463)	98,463
Foreign exchange and others	(354)	–	–	–	–	4	(354)	4
Others	–	119	–	–	–	(50)	–	69
At 31 Dec 2019	5,524,806	(28,534)	168,854	(47,303)	194,095	(124,268)	5,887,755	(200,105)
ECL release/(charge) for the period	–	8,255	–	(51,486)	–	(28,258)	–	(71,489)
Recoveries	–	–	–	–	–	23,982	–	23,982
Others	–	–	–	–	–	131	–	131
Total ECL Charge for the period	–	8,255	–	(51,486)	–	(4,145)	–	(47,376)

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]
Quality classification			
Strong	**A– and above**	**CRR[1]1 to CRR2**	**Band 1 and 2**
Good	**BBB+ to BBB–**	**CRR3**	**Band 3**
Satisfactory	**BB+ to B and unrated**	**CRR4 to CRR5**	**Band 4 and 5**
Sub-standard	**B– to C**	**CRR6 to CRR8**	**Band 6**
Impaired	**Default**	**CRR9 to CRR10**	**Band 7**

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

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default 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 customer risk rating ('CRR') 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All HSBC 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 probability of default.

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 2020

	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	4,970,054	7,054,849	6,463,458	744,851	1,463,189	20,696,401	(1,345,685)	19,350,716
Loans and advances to banks held at amortised cost	6,607,780	693,312	445,097	62	–	7,746,251	(3,827)	7,742,424
Cash and balances at central banks	1,241,854	–	–	–	–	1,241,854	(863)	1,240,991
Items in the course of collection from other banks	69,569	–	–	–	–	69,569	–	69,569
Reverse repurchase agreements – non-trading	1,537,394	42,967	248,490	–	–	1,828,851	–	1,828,851
Prepayments, accrued income and other assets	233,901	137,474	486,121	9,419	5,621	872,536	(7,334)	865,202
– endorsements and acceptances	148,053	127,919	327,070	9,419	1,560	614,021	(3,274)	610,747
– accrued income and other	85,848	9,555	159,051	–	4,061	258,515	(4,060)	254,455
Debt instruments measured at fair value through other comprehensive income	8,663,349	–	1,405,524	–	–	10,068,873	(2,758)	10,066,115
Out-of-scope for IFRS 9						–		
Trading assets	615,444	26,795	99,355	–	–	741,594	–	741,594
Derivatives	1,665,325	103,049	65,232	42,467	3,169	1,879,242	–	1,879,242
Total gross carrying amount on balance sheet	**25,604,670**	**8,058,446**	**9,213,277**	**796,799**	**1,471,979**	**45,145,171**	**(1,360,467)**	**43,784,704**
Percentage of total credit quality	57 %	18 %	20 %	2 %	3 %	100 %		100 %
Loan and other credit related commitments	2,842,864	1,928,617	1,777,164	40,619	50,290	6,639,554	(36,535)	6,603,019
Financial guarantees	578,311	315,664	295,734	14,995	12,679	1,217,383	(16,675)	1,200,708
Total nominal amount off balance sheet	**3,421,175**	**2,244,281**	**2,072,898**	**55,614**	**62,969**	**7,856,937**	**(53,210)**	**7,803,727**
At 31 Dec 2020	**29,025,845**	**10,302,727**	**11,286,175**	**852,413**	**1,534,948**	**53,002,108**	**(1,413,677)**	**51,588,431**

Distribution of financial instruments by credit quality at 31 December 2019 (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
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	8,320,848	3,913,442	6,292,933	888,115	1,201,158	20,616,496	(955,261)	19,661,235
Loans and advances to banks held at amortised cost	4,966,769	365,094	451,727	15,311	—	5,798,901	(1,478)	5,797,423
Cash and balances at central banks	896,922	—	—	—	—	896,922	(314)	896,608
Items in the course of collection from other banks	78,992	—	—	—	—	78,992	—	78,992
Reverse repurchase agreements – non-trading	464,772	—	276,889	—	—	741,661	(28)	741,633
Prepayments, accrued income and other assets	118,248	125,837	903,725	21,045	5,888	1,174,743	(7,000)	1,167,743
– endorsements and acceptances	57,416	119,004	611,307	21,045	—	808,772	(1,111)	807,661
– accrued income and other	60,832	6,833	292,418	—	5,888	365,971	(5,889)	360,082
Debt instruments measured at fair value through other comprehensive income	9,009,603	—	1,429,119	—	—	10,438,722	(1,485)	10,437,237
Out-of-scope for IFRS 9						—		
Trading assets	22,069	15,490	157,241	—	—	194,800	—	194,800
Derivatives	1,015,524	131,931	26,221	955	1,665	1,176,296	—	1,176,296
Total gross carrying amount on balance sheet	24,893,747	4,551,794	9,537,855	925,426	1,208,711	41,117,533	(965,566)	40,151,967
Percentage of total credit quality	61 %	11 %	23 %	2 %	3 %	100 %		100 %
Loan and other credit related commitments	3,413,834	1,555,964	1,263,902	79,014	6,809	6,319,523	(15,939)	6,303,584
Financial guarantees	986,983	281,983	261,271	14,044	9,387	1,553,668	(6,037)	1,547,631
Total nominal amount off balance sheet	4,400,817	1,837,947	1,525,173	93,058	16,196	7,873,191	(21,976)	7,851,215
At 31 Dec 2019	29,294,564	6,389,741	11,063,028	1,018,484	1,224,907	48,990,724	(987,542)	48,003,182

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation at 31 December 2020

	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	**23,323,901**	**7,928,602**	**9,048,690**	**754,332**	**1,468,810**	**42,524,335**	**(1,360,467)**	**41,163,868**
– stage 1	**22,222,779**	**6,013,985**	**6,458,145**	**227,371**	**—**	**34,922,280**	**(101,758)**	**34,820,522**
– stage 2	**1,101,122**	**1,914,617**	**2,590,545**	**526,961**	**—**	**6,133,245**	**(247,556)**	**5,885,689**
– stage 3	**—**	**—**	**—**	**—**	**1,454,957**	**1,454,957**	**(1,009,654)**	**445,303**
– POCI	**—**	**—**	**—**	**—**	**13,853**	**13,853**	**(1,499)**	**12,354**
Nominal amount off balance sheet	**3,421,175**	**2,244,281**	**2,072,898**	**55,614**	**62,969**	**7,856,937**	**(53,210)**	**7,803,727**
– stage 1	**3,150,343**	**1,855,047**	**1,539,923**	**13,365**	**—**	**6,558,678**	**(13,246)**	**6,545,432**
– stage 2	**270,832**	**389,234**	**532,975**	**42,249**	**—**	**1,235,290**	**(39,829)**	**1,195,461**
– stage 3	**—**	**—**	**—**	**—**	**62,969**	**62,969**	**(135)**	**62,834**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**26,745,076**	**10,172,883**	**11,121,588**	**809,946**	**1,531,779**	**50,381,272**	**(1,413,677)**	**48,967,595**
Gross carrying amount on balance sheet	23,856,154	4,404,373	9,354,393	924,471	1,207,046	39,746,437	(965,566)	38,780,871
– stage 1	23,772,777	3,840,090	8,309,779	613,260	—	36,535,906	(72,526)	36,463,380
– stage 2	83,377	564,283	1,044,614	311,211	—	2,003,485	(87,481)	1,916,004
– stage 3	—	—	—	—	1,204,599	1,204,599	(804,066)	400,533
– POCI	—	—	—	—	2,447	2,447	(1,493)	954
Nominal amount off balance sheet	4,400,817	1,837,947	1,525,173	93,058	16,196	7,873,191	(21,976)	7,851,215
– stage 1	4,305,271	1,768,562	1,206,005	74,821	—	7,354,659	(10,862)	7,343,797
– stage 2	95,546	69,385	319,168	18,237	—	502,336	(11,094)	491,242
– stage 3	—	—	—	—	16,196	16,196	(20)	16,176
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2019	28,256,971	6,242,320	10,879,566	1,017,529	1,223,242	47,619,628	(987,542)	46,632,086

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.

Further examples of exposures past due but not impaired 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	**5,872,001**	**115,989**	**86,246**	**(244,803)**	**(10,267)**	**(22,477)**	**(4.2)**	**(8.9)**	**(26.1)**
– personal	**293,501**	**16,700**	**32,018**	**(99,828)**	**(8,237)**	**(17,140)**	**(34.0)**	**(49.3)**	**(53.5)**
– corporate and commercial	**5,509,911**	**99,289**	**54,228**	**(142,587)**	**(2,030)**	**(5,337)**	**(2.6)**	**(2.0)**	**(9.8)**
– non-bank financial institutions	**68,589**	**—**	**—**	**(2,388)**	**—**	**—**	**(3.5)**	**—**	**—**
Loans and advances to banks at amortised cost	**147,112**	**—**	**—**	**(1,110)**	**—**	**—**	**(0.8)**	**—**	**—**
Other financial assets measured at amortised cost	**114,132**	**—**	**—**	**(1,643)**	**—**	**—**	**(1.4)**	**—**	**—**
At 31 Dec 2020	**6,133,245**	**115,989**	**86,246**	**(247,556)**	**(10,267)**	**(22,477)**	**(4.0)**	**(8.9)**	**(26.1)**
Loans and advances to customers held at amortised cost	1,907,875	84,344	34,190	(87,128)	(7,802)	(11,337)	(4.6)	(9.3)	(33.2)
– personal	148,660	17,282	21,203	(47,299)	(6,993)	(11,056)	(31.8)	(40.5)	(52.1)
– corporate and commercial	1,759,215	67,062	12,987	(39,829)	(809)	(281)	(2.3)	(1.2)	(2.2)
– non-bank financial institutions	—	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	10,303	—	—	(58)	—	—	(0.6)%	—	—
Other financial assets measured at amortised cost	85,307	2,636	78	(295)	(4)	(9)	(0.3)	(0.2)	(11.5)
At 31 Dec 2019	2,003,485	86,980	34,268	(87,481)	(7,806)	(11,346)	(4.4)	(9.0)	(33.1)

Impaired loans

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

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

Renegotiated loans and forbearance

Where a loan is modified due to significant concerns about the borrower's ability to meet contractual payments when due, a range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession.

Identifying renegotiated loans

Loans are identified as renegotiated loans when the group modifies the contractual payment terms due to significant credit distress of the borrower. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. The group classifies and reports loans on which concessions have been granted under conditions of credit distress as 'renegotiated loans' when their contractual payment terms have been modified because the group has significant concerns about the borrowers' ability to meet contractual payments when due.

When considering modification terms, the borrower's continued ability to repay is assessed and where they are unrelated to payment arrangements, whilst potential indicators of impairment, these loans are not considered as renegotiated loans. Loans that have been identified as renegotiated retain this designation until maturity or derecognition. A loan that is renegotiated 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 renegotiated loan is substantially a different financial instrument. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans.

Credit Quality of Renegotiated Loans

Under IFRSs, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

When the group grants a concession to a customer that the group would not otherwise consider, as a result of their financial difficulty, this is objective evidence of impairment and impairment losses are measured accordingly.

A renegotiated loan is presented as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and;
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in derecognition of the existing loan, such as in some debt consolidations, the new loan is disclosed as renegotiated.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the group considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

Renegotiated loans and advances to customers by industry sector at 31 December 2020

	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Renegotiated loans
	US$000	US$000	US$000	US$000	US$000
Stage 1	—	—	—	—	—
Stage 2	—	—	86,023	—	86,023
Stage 3	58,953	31,338	534,812	3,118	628,221
Renegotiated loans At 31 Dec 2020	**58,953**	**31,338**	**620,835**	**3,118**	**714,244**
Allowance for expected credit losses on renegotiated loans					428,782
Stage 1	—	—	334,492	—	334,492
Stage 2	—	—	48,968	—	48,968
Stage 3	95,069	12,595	658,698	17,900	784,262
Renegotiated loans At 31 Dec 2019	95,069	12,595	1,042,158	17,900	1,167,722
Allowance for expected credit losses on renegotiated loans					520,360

For retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated 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 renegotiated loans.

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

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 industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The group uses a number of controls and measures to minimise undue concentration of exposure in our portfolios across industry and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

The group provides a diverse range of financial services both in the Middle East and internationally. As a result, its portfolio of financial instruments with credit risk is diversified, with no exposures to individual industries or economic groupings totalling more than 10% of consolidated total assets, except as follows:

- the majority of the group's exposure to credit risk is concentrated in the Middle East. Within the Middle East, the group's credit risk is diversified over a wide range of industrial and economic groupings; and
- the group's position as part of a major international banking group means that it has a significant concentration of exposure to banking counterparties. The majority of credit risk to the banking industry at 31 December 2020 and 31 December 2019 was concentrated in the Middle East.

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.

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 2020	**US$000**	**%**
Personal		
– residential mortgages	**1,868,782**	**9.0**
– other personal	**1,500,795**	**7.3**
	3,369,577	**16.3**
Corporate and commercial		
– commercial, industrial and international trade	**9,849,848**	**47.6**
– commercial real estate and other property-related	**2,645,608**	**12.8**
– government	**1,342,671**	**6.5**
– other corporate and commercial	**3,315,512**	**16.0**
	17,153,639	**82.9**
Financial		
– non-bank financial institutions	**173,185**	**0.8**
Total gross loans and advances to customers	**20,696,401**	**100.0**
Impaired loans		
– as a percentage of gross loans and advances to customers	**7.07 %**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**6.50 %**	
At 31 Dec 2019		
Personal		
– residential mortgages	1,949,021	9.5
– other personal	1,885,944	9.1
	3,834,965	18.6
Corporate and commercial		
– commercial, industrial and international trade	9,522,586	46.2
– commercial real estate and other property-related	2,805,084	13.6
– government	1,468,378	7.1
– other corporate and commercial	2,859,850	13.9
	16,655,898	80.8
Financial		
– non-bank financial institutions	125,633	0.6
Total gross loans and advances to customers	20,616,496	100.0
Impaired loans		
– as a percentage of gross loans and advances to customers	5.83 %	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	4.63 %	

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

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

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

	Gross carrying/nominal amount	
	2020	2019
	US$000	US$000
Stage 1		
Fully collateralised	**1,671,087**	1,715,360
LTV ratio:		
– less than 50%	**233,170**	257,775
– 51% to 60%	**215,159**	201,333
– 61% to 70%	**306,627**	288,063
– 71% to 80%	**493,890**	486,549
– 81% to 90%	**325,051**	391,497
– 91% to 100%	**97,190**	90,143
Partially collateralised (A):	**46,885**	102,972
LTV ratio:		
– 101% to 110%	**25,126**	48,207
– 111% to 120%	**6,292**	18,673
– greater than 120%	**15,467**	36,092
– *collateral value on A*	***39,806***	*95,163*
Total	**1,717,972**	1,818,332
Stage 2		
Fully collateralised	**56,765**	10,694
LTV ratio:		
– less than 50%	**10,794**	3,273
– 51% to 60%	**1,564**	520
– 61% to 70%	**10,815**	2,776
– 71% to 80%	**23,436**	2,038
– 81% to 90%	**7,527**	657
– 91% to 100%	**2,629**	1,430
Partially collateralised (B):	**9,102**	2,618
LTV ratio:		
– 101% to 110%	**1,685**	—
– 111% to 120%	**177**	917
– greater than 120%	**7,240**	1,701
– *collateral value on B*	***6,547***	*2,122*
Total	**65,867**	13,312
Stage 3		
Fully collateralised	**45,116**	44,652
LTV ratio:		
– less than 50%	**9,624**	7,774
– 51% to 60%	**2,153**	4,025
– 61% to 70%	**6,107**	5,023
– 71% to 80%	**9,991**	4,951
– 81% to 90%	**8,469**	7,012
– 91% to 100%	**8,772**	15,867
Partially collateralised (C):	**39,827**	72,725
LTV ratio:		
– 101% to 110%	**5,494**	8,482
– 111% to 120%	**10,052**	4,134
– greater than 120%	**24,281**	60,109
– *collateral value on C*	***31,779***	*71,840*
Total	**84,943**	117,377
At 31 Dec	**1,868,782**	1,949,021

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 throughout the group, 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 and second lien portfolios. Motor vehicle lending is generally collateralised by the motor vehicle financed. Credit cards and overdrafts are generally unsecured. Second lien lending is supported by collateral but the claim on the collateral is subordinate to the first lien charge.

Collateral on loans and advances

Commercial real estate loans and advances

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

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

	Gross carrying/nominal amount	
	2020	2019
	US$000	US$000
Stage 1		
Not collateralised	**908,023**	1,609,747
Fully collateralised	**283,380**	264,162
LTV ratio:		
– less than 50%	**25,418**	28,771
– 51% to 75%	**73,540**	44,660
– 76% to 90%	**137,925**	–
– 91% to 100%	**46,497**	190,731
Partially collateralised (A):	**127,974**	101,208
– *collateral value on A*	***91,782***	*78,142*
Total	**1,319,377**	1,975,117
Stage 2		
Not collateralised	**509,931**	3,416
Fully collateralised	**–**	12,926
LTV ratio:		
– less than 50%	**–**	12,926
Partially collateralised (B):	**–**	–
– *collateral value on B*	**–**	–
Total	**509,931**	16,342
Stage 3		
Not collateralised	**30,718**	30,716
Fully collateralised	**5,968**	6,478
LTV ratio:		
– less than 50%	**5,968**	6,478
Partially collateralised (C):	**212,096**	171,257
– *collateral value on C*	***157,916***	*151,594*
Total	**248,782**	208,451
At 31 Dec	**2,078,090**	2,199,910

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

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

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

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

	Gross carrying/nominal amount	
	2020	2019
	US$000	US$000
Stage 1		
Not collateralised	**19,742,450**	22,936,289
Fully collateralised	**166,613**	676,110
LTV ratio:		
– less than 50%	**30,512**	379,671
– 51% to 75%	**70,677**	113,473
– 76% to 90%	**43,533**	83,476
– 91% to 100%	**21,891**	99,490
Partially collateralised (A):	**1,769,355**	1,811,389
– *collateral value on A*	***492,041***	*600,074*
Total	**21,678,418**	25,423,788
Stage 2		
Not collateralised	**5,997,691**	1,936,677
Fully collateralised	**319,232**	57,440
LTV ratio:		
– less than 50%	**244,105**	26,463
– 51% to 75%	**51,142**	25,014
– 76% to 90%	**20,425**	2,990
– 91% to 100%	**3,560**	2,973
Partially collateralised (B):	**753,001**	285,424
– *collateral value on B*	***241,179***	*108,130*
Total	**7,069,924**	2,279,541
Stage 3		
Not collateralised	**798,661**	594,138
Fully collateralised	**35,811**	122,712
LTV ratio:		
– less than 50%	**9,148**	21,432
– 51% to 75%	**2,590**	1,023
– 76% to 90%	**2,584**	78,820
– 91% to 100%	**21,489**	21,437
Partially collateralised (C):	**285,261**	162,843
– *collateral value on C*	***85,551***	*62,139*
Total	**1,119,733**	879,693
POCI		
Not collateralised	**1,497**	2,447
Fully collateralised	**12,356**	–
LTV ratio:		
– 91% to 100%	**12,356**	–
Partially collateralised (C):	**–**	–
– *collateral value on C*	**–**	–
Total	**13,853**	2,447
At 31 Dec	**29,881,928**	28,585,469

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.

Liquidity and Funding

Overview

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet the obligations as they fall due. Liquidity risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that we cannot raise funding or we can only do so at excessive cost.

Covid-19

The management of liquidity risk was enhanced during 2020 in response to the Covid-19 outbreak to ensure we anticipated, monitored and responded to the impacts of the ongoing situation. Management instigated multiple work streams to ensure that the response to the situation was robust, pro-active and proportionate, and to ensure the position remains strong.

Internal Liquidity Adequacy Assessment Process ('ILAAP') and Risk Appetite

The Group has an internal liquidity and funding risk management framework (‘LFRF’) which aims to allow the group to withstand very severe liquidity stresses. The LFRF comprises policies, metrics and controls designed to ensure that the Group has oversight of our liquidity and funding risks in order to manage them appropriately.

The Group manages liquidity and funding risk at an operating entity level to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other HSBC entities. As HSBC Bank Middle East we are required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which is used to ensure that we have robust strategies, policies and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day, so as to ensure we maintain adequate levels of liquidity buffers. It also informs the validation of risk tolerance and risk appetite. These metrics are set and managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the LFRF across the Group.

Performance and Measurement

Funding and liquidity plans form part of the annual operating plan that is approved by the Board. The critical Board-level measures are the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'). An appropriate funding and liquidity profile is managed through a wider set of measures:

- A minimum LCR requirement
- A minimum NSFR requirement
- A deposit concentration measure
- A wholesale market term funding maturity concentration measure
- Single currency liquidity and funding management
- Analysis of off-balance sheet commitments
- Individual Liquidity Adequacy Assessment and liquidity stress testing
- Liquidity funds transfer pricing
- Forward looking funding status assessments

Risks to Liquidity and Funding

Risks to liquidity and funding are assessed through forecasting, stress testing and scenario analysis, combined with ongoing assessments of risks in the business and external environment.

Stress testing, recovery and contingency planning

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

Management of Liquidity and Funding Risk

Liquidity coverage ratio (‘LCR’)

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets (‘HQLA’) to meet its liquidity needs in a 30 calendar day liquidity stress scenario. For the calculation of the LCR, the group follows the guidelines set by the European Commission.

Net stable funding ratio (‘NSFR’)

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

Depositor concentration and wholesale market term funding maturity concentration

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

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

Currency mismatch in the LCR and NSFR

The group’s internal liquidity and funding risk management framework requires all operating entities to monitor the LCR and NSFR for material currencies. Limits are set locally for single currency LCR and NSFR to ensure stable funding by currency and to ensure that outflows can be met, given assumptions on stressed capacity in the FX swap markets.

Liquid assets

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

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

Further details in respect of the group's Liquidity and Funding ratios are set out on page 75 of the *Annual Report and Accounts 2020*.

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$39,701m at 31 December 2020, funding from customers amounted to US$26,835m, of which US$26,767m 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 26.

Assets available to meet these liabilities, and to cover outstanding commitments to lend (US$17,030m), included cash, central bank balances, items in the course of collection and treasury and other bills (US$5,278m); loans to banks (US$7,742m, including US$6,685m repayable within one year); and loans to customers (US$19,351m, including US$8,914m repayable within one year). In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

The group also access wholesale funding markets by issuing senior secured and unsecured debt securities (publicly and privately) and borrowing from the secured repo markets against high-quality collateral to align asset and liability maturities and currencies and to maintain a presence in local wholesale markets.

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

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 of the GMB 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 Global Markets. VaR limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set.

VaR limits are set for portfolios, 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 Global Markets 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

Value at risk ('VaR') is a technique that estimates the potential losses 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.

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	
	Footnotes	**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

	2020	2019
	US$000	US$000
At 31 Dec	**2,738**	2,533
Average	**3,525**	2,140
Maximum	**6,401**	4,244
Minimum	**2,162**	1,300

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 Global Markets. The VaR for such trading intent activity at 31 December 2020 was US$2.76m (2019: US$2.25m).

VaR by risk type for the trading intent activities

	Footnotes	**Foreign exchange (FX)**	**Interest rate**	**Credit spread**	**Total**
		US$000	**US$000**	**US$000**	**US$000**
At 31 Dec 2020	*1*	**244**	**2,294**	**495**	**2,756**
Average		**635**	**2,480**	**529**	**2,678**
Maximum		**2,315**	**4,058**	**2,836**	**4,390**
Minimum		**191**	**1,501**	**115**	**1,610**
At 31 Dec 2019		407	2,228	245	2,256
Average		974	1,177	627	1,728
Maximum		2,614	2,752	3,129	3,156
Minimum		180	527	106	794

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

Non-trading portfolios

Non-trading VaR of the Group includes contributions from all global businesses. There is no commodity risk in the non-trading portfolios. Non-trading VaR includes the interest rate risk in the banking book transferred to and managed by Balance Sheet Management ('BSM') and the non-trading financial instruments held by BSM.

VaR by risk type for the non-trading activities

	Interest rate	Credit spread	Total
	US$000	US$000	US$000
At 31 Dec 2020	**1,731**	**1,461**	**2,795**
Average	**1,898**	**2,073**	**2,827**
Maximum	**3,260**	**5,248**	**4,931**
Minimum	**1,235**	**333**	**1,532**
At 31 Dec 2019	1,898	346	2,000
Average	1,377	384	1,416
Maximum	2,081	1,660	3,295
Minimum	819	143	846

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 (2019: nil) arising from gap risk movements in the underlying market price on such transactions in the 12 months ended 31 December 2020.

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.

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 Global Markets and Balance Sheet Management ('BSM') 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.

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 controls or by financing the borrowings in the same currencies as the functional currencies involved.

Net interest income sensitivity

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

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

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

Defined benefit pension scheme

Market risk also arises within the group's defined benefit pension schemes to the extent that the obligations of the schemes are not fully matched by assets with determinable cash flows.

Non-Financial Risk

Non-financial risk is defined as the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events.

We use a comprehensive risk management framework across the organisation and across all risk types, underpinned by the Group's culture and values. This outlines the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities.

All our people are responsible for identifying and managing risk within the scope of their roles and as part of the three lines of defence model. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our chief risk officers.

During 2020, we continued to strengthen the control environment and our approach to management of the non-financial risk, as broadly set out in our risk management framework. Our ongoing focus is on simplifying our approach while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the operational and resilience risk function which supports the chief risk officers.

Legal risk

The group implements processes and procedures in place to manage legal risk that conform to HSBC Group standards.

Legal risk falls within the definition of operational risk and includes the risk of a member of the group suffering financial loss, legal or regulatory action or reputational damage due to:

- contractual risk, which is the risk that any group member enters into inadequate or unenforceable customer contracts or ancillary documentation, inadequate or unenforceable non-customer contracts or ancillary documentation and/or contractual fiduciary;
- dispute adjudication risk, which is the risk arising due to an adverse dispute environment or a failure to take appropriate steps to defend, prosecute and/or resolve actual or threatened legal claims brought against or by a group member, including for the avoidance of doubt, regulatory matters;
- legislative risk, which is the risk that a group member fails to or is unable to identify, analyse, track, assess or correctly interpret applicable legislation, case law or regulation, or new regulatory, legislative or doctrinal interpretations of existing laws or regulations, or decisions in the Courts or regulatory bodies;
- non-contractual rights risk, which is the risk that a group member's assets are not properly owned or protected or are infringed by others, or a group member infringes another party's rights; and
- non-contractual obligations risk, which is the risk arising due to infringement of third-party rights and/or breach of common law duties.

The group has a legal function to assist management in controlling legal risk. The function provides legal advice to manage and control legislative, contractual and non-contractual risks and support in managing litigation claims and significant regulatory enforcement against group companies, as well as in respect of non-routine debt recoveries or other litigation against third parties.

The group members must notify the legal department immediately if any litigation, dispute or material regulatory action is either threatened or commenced against the group or an employee (acting in his capacity as an officer or employee of the group). The legal department must be immediately advised of any significant action by a regulatory authority, where the proceedings are criminal, or where the claim might materially affect HSBC Group's reputation.

The legal department will assess each claim that is threatened or commenced against the group or any employee (acting in his capacity as an officer or employee of the group) in order to determine the appropriate action, including appointment of external counsel, consideration of the merits of the claim, consideration of any provision, consideration of any document holds or interviews that may be required and consideration of any immediate reporting to senior management or the bank's regulators as may be necessary.

The legal department must immediately advise the bank's senior management and the HSBC Group of any threatened or actual litigation claims if such claim exceeds US$5m or of any significant action by a regulatory authority, where the proceedings are criminal or where a claim might materially affect HSBC Group's reputation. In addition, the legal department submits periodic returns to the bank's risk management meeting and Board Risk Committee meeting, including updates on ongoing litigation and details of any judgements issued against the group. These returns are shared with the bank's regulators on a periodic basis.

Finally, the group is required to submit a quarterly return to HSBC Group detailing outstanding claims where the claim (or group of similar claims) exceeds US$10m, where the action is by a regulatory authority, where the proceedings are criminal, where the claim might materially affect the group’s reputation, or, where the HSBC Group has requested returns be completed for a particular claim. These returns are used for reporting to the HSBC Group Audit Committee and the Board of HSBC Holdings plc.

Capital management

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

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

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

Further details in respect of the group's Capital requirement are set out on page 77 of the *Annual Report and Accounts 2020.*

32 Contingent liabilities, contractual commitments and guarantees

	2020 US$000	2019 US$000
Guarantees and other contingent liabilities		
Guarantees	**16,459,976**	16,136,763
Commitments		
Documentary credits and short-term trade-related transactions	**632,218**	716,233
Undrawn formal standby facilities, credit lines and other commitments to lend	**16,398,052**	16,718,873
At 31 Dec	**17,030,270**	17,435,106

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:

	2020 US$000	2019 US$000
Guarantees and assets pledged by the bank as collateral security	**2,908,969**	3,140,418
Documentary credits and short-term trade-related transactions	**179,355**	267,164
At 31 Dec	**3,088,324**	3,407,582

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:

		2020		2019	
		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
	Footnotes	**US$000**	**US$000**	US$000	US$000
Financial guarantees	*1*	**923,313**	**294,070**	1,110,198	443,470
Credit-related guarantees	*2*	**4,206,464**	**793,415**	4,180,066	992,614
Other guarantees		**8,421,229**	**1,821,485**	7,706,081	1,704,334
At 31 Dec		**13,551,006**	**2,908,970**	12,996,345	3,140,418

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

Other commitments

In addition to the commitments disclosed above, at 31 December 2020 the group had capital commitments to purchase, within one year, land and building and other fixed assets for a value of nil (2019: 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 Lease commitments

Finance lease receivables

The group leases a variety of assets to third parties under finance leases. 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.

	2020			2019		
	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	**25,049**	**(1,582)**	**23,467**	79,810	(1,858)	77,952
– later than one year and no later than	**43,648**	**(4,847)**	**38,801**	32,274	(6,869)	25,405
– later than five years	**11,352**	**(406)**	**10,946**	33,962	(1,246)	32,716
At 31 Dec	**80,049**	**(6,835)**	**73,214**	146,046	(9,973)	136,073

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 of the group's *Annual Report and Accounts 2020*. 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 2020. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matters

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

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority, which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC Holdings agreed to retain an independent compliance monitor to produce annual assessments of the Group's AML and sanctions compliance programme (the 'Skilled Person/Independent Consultant'). In December 2012, HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions. HSBC's engagement with the Skilled Person appointed pursuant to the 2013 Direction was terminated in February 2020 and a new Skilled Person with a narrower mandate has been appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. A new Independent Consultant is also being appointed to continue to carry out an annual OFAC compliance review at the FRB's discretion.

US Anti-Terrorism Act Related Litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various companies of HSBC Group 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 November 2014, a complaint was filed in the US District Court for the Eastern District of New York on behalf of representatives of US persons alleged to have been killed or injured in Iraq between April 2004 and November 2011 ('ATA Case 1'). The complaint was filed against HSBC Holdings, HSBC Bank plc, HSBC Bank USA and HSBC Bank Middle East Limited, as well as other non-HSBC banks and the Islamic Republic of Iran. The plaintiffs allege that the defendants violated the US Anti-Terrorism Act ('US ATA') by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. The defendants filed a Motion to Dismiss in May 2015 and an amended Motion to Dismiss in September 2017, following the filing by the Plaintiffs of a Second Amended Complaint in July 2017. In July 2017, the various motions before the Court were referred for review and for the issuance of a judicial report and recommendations, which was issued in July 2018, and which concluded that the New York District Court should deny the defendants' motion to dismiss. The defendants challenged this conclusion and in December 2019, the judge granted the defendants' motion to dismiss in ATA Case 1 which the plaintiffs appealed, with the case now pending before the Second Circuit.

In November 2017, a complaint was filed in the Southern District of New York on behalf of representatives of US soldiers killed or injured whilst serving in Iraq ('ATA Case 2'). The complaint was filed against HSBC Holdings plc, HSBC Bank plc, HSBC Bank Middle East Limited, HSBC Bank USA, N.A, HSBC North America Holdings Inc. and other non-HSBC Banks. The plaintiffs allege that the HSBC defendants violated the US ATA by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US and also allege breaches of US Justice Against Sponsors of Terrorism Act ('JASTA'). In February 2020, the Court denied the Plaintiffs motion to amend their complaint and dismissed the case with prejudice against all but one non-HSBC defendants. The Plaintiffs may appeal the decision to the Second Circuit but have not yet done so.

In December 2018, three new cases and two cases relating to existing actions were filed in the New York District Court against the group and various HSBC companies, prompted by an expiry of the statute of limitations which applies to such ATA related claims. An additional ATA case was filed in April 2019 (the 'New ATA Cases'). The Court indicated that it would consolidate ATA Case 1 and two of the new ATA Cases to proceed to the second circuit however to date this has not transpired. The remainder of the e New ATA Cases are at a very early stage. Based on the facts currently known, it is not practicable at this time for HSBC to predict the timing of the resolution of ATA Case 2 or the New ATA Cases.

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

Foreign exchange rate investigations and litigation

Various regulators and competition authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews and settlements relevant to the group are detailed below.

In January 2021, HSBC Holdings exited its three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. HSBC Holdings entered into the FX

DPA in January 2018, following the conclusion of the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, the DoJ is expected to file a motion to dismiss the charges deferred by the FX DPA in due course.

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', close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close family members. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Bank Middle East Limited and the group and includes members of the Boards of Directors of HSBC Bank Middle East Limited.

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

Key Management Personnel

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

Transactions, arrangements and agreements including Key Management Personnel

Compensation of Key Management Personnel

	2020	2019
	US$000	US$000
Remuneration (wages and bonus)	**2,148**	3,155
Post-employment benefits	**48**	128
Share-based payments	**640**	834
Year ended 31 Dec	**2,836**	4,117

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

		2020		2019	
		Highest amounts outstanding during year	**Balance at 31 Dec**	Highest amounts outstanding during year	Balance at 31 Dec
	Footnotes	**US$000**	**US$000**	US$000	US$000
Key Management Personnel	*1*				
Loans		**—**	**—**	918	—
Credit cards		**54**	**54**	191	191

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

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

Transactions with other related parties

Associates

Transactions and balances during the year with associates

	2020		2019	
	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	**1,305**	**1,305**	1,657	1,657

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

	2020		2019	
	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	**2,951**	**688**	2,797	2,797
Liabilities				
Other liabilities	**13,494**	**5,834**	7,351	6,875

	For the year ended 31 Dec 2020	For the year ended 31 Dec 2019
	US$000	US$000
Income statement		
Other operating income	**1,519**	1,550
General and administrative expenses	**49,772**	31,253

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

	2020		2019	
	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	**1,437,042**	**1,437,042**	926,754	825,453
Loans and advances to banks (including reverse repos)	**3,128,806**	**2,065,461**	1,971,202	1,131,657
Other assets	**317,592**	**75,681**	304,678	47,439
Liabilities				
Trading liabilities	**153,475**	**—**	—	—
Deposits by banks	**1,625,860**	**1,028,217**	1,911,105	1,911,105
Derivatives	**1,683,841**	**1,529,271**	1,255,240	953,261
Subordinated amounts due	**950,000**	**950,000**	950,000	950,000
Other liabilities	**138,633**	**23,951**	165,561	14,553
Off-balance sheet				
Guarantees	**3,134,031**	**2,908,969**	3,160,336	3,140,418
Documentary credit and short-term trade-related transactions	**261,615**	**179,355**	267,164	267,164

	For the year ended 31 Dec 2020	For the year ended 31 Dec 2019
	US$000	US$000
Income Statement		
Interest income	**2,743**	5,115
Interest expense	**54,814**	81,332
Fee income	**59,820**	65,237
Fee expense	**11,147**	15,314
Other operating income	**42,844**	49,191
General and administrative expenses	**204,075**	181,488

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

Transactions between HSBC Bank Middle East Limited and its subsidiaries

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

	2020		2019	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	US$000	**US$000**	US$000	US$000
Assets				
Loans and advances to customers	**2,117**	**2,081**	2,351	1,787
Liabilities				
Customer accounts	**26,908**	**26,894**	27,082	26,107

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 23 February 2021 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 2020 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:

Macroeconomic & credit risks

The Covid-19 outbreak resulted in an unprecedented global economic slowdown, and combined with sustained low oil prices has resulted in a significant increase in credit stress in the portfolio. We increased the frequency and depth of monitoring activities on the portfolios, we performed stress tests and other sectorial reviews to identify portfolios or customers who were experiencing or were likely to experience financial difficulty as a result of Covid-19.

Geopolitical risks

Our operations and portfolios are exposed to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/ or physical damage to our assets. We continue to monitor emerging geopolitical developments on an ongoing basis and assess what impacts these may have on our portfolios, capital adequacy and liquidity as well as on our financial crime risk management framework.

Geopolitical risk in the Middle East remained heightened in early 2020 with the intensification of political tensions between Iran and its allies and the USA and their allies in the Gulf and whilst the incoming US President Biden has pledged to work towards resuming diplomacy, tensions remain. More generally, the inauguration of US President Biden signals a more multilateral approach in the Middle East however relations could be strained with some regional governments increasing the risk of sanctions. Rising US-China tensions during the COVID-19 pandemic has raised the prospects of Middle East and other governments being impacted and this could intensify in the longer term.

In August 2020, the UAE and Bahrain announced the normalization of relations with Israel and in early January 2021 Saudi Arabia, Bahrain, Egypt and the UAE announced the ending of the blockade of Qatar including the restoration of diplomatic relations and the reopening of land and sea borders. Both of these recent geopolitical developments are positive for regional stability and are expected to be beneficial for the GCC economy in the medium-term.

Given ongoing geopolitical tensions, the compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional reputations and political risks for the group. We continue to seek to monitor, assess and meet the legal requirements introduced by all jurisdictions in which we operate and maintain an open dialogue with the regulators on the impact of such requirements on our business and customers.

Extra-territorial applicability of legislations/regulations

In the context of Ibor transition, we remain focused on providing alternative rate products and the supporting processes and systems to replace Ibors to make them available to our customers. We have invested to improve our compliance systems and controls in relation to global markets including enhancements to pricing and disclosure, order management and trade surveillance, front office supervision and framework for employee misconduct.

Evolving legal and regulatory frameworks across the region

We closely monitor for regulatory developments and engage with regulators, as appropriate, to help ensure that new regulatory requirements, such as those in response to Covid-19 are implemented effectively and in a timely way.

Operational and resilience risk

We continued to enhance our cybersecurity capabilities including threat detection and access control as well as back-up and recovery. We invested further to improve system resilience and service continuity and have upgraded our IT systems. To mitigate the risks arising from the receipt of services from third parties, we have strengthened our processes, controls and technology to assess and oversee third party service providers and have established a dedicated oversight forum for all new outsourcing activities.

Data management

We are improving data quality across our systems and strengthening our oversight of data management and aggregation. We are expanding the scope of critical data that is under governance and have implemented data controls to improve the reliability of data. We have implemented data privacy controls to comply with relevant data privacy laws in the jurisdictions in which we operate.

Financial Crime risk environment

We continued to support the business and our customers while continuing to manage financial crime risk. We continued to invest in both advanced analytics and artificial intelligence, which remain key components of our next generation of tools to fight financial crime. We increased our focus on fraud risks given the prevailing environment.

Climate and Sustainability Risk

We are developing a framework to identify, oversee and manage climate-related risks. Our risk management priorities are focusing on embedding a climate risk management framework including: assessing the physical and transition risk in our wholesale credit portfolio, reviewing retail mortgage exposures in respect of natural hazard risk and developing scenarios internally for risk management, planning and stress testing.

Model Risk

We strengthened our model risk management function including the appointment of a model risk steward, updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management. We refreshed and tested model risk controls.

Evolving Technology and Client Expectations

We are executing on planned initiatives to drive digital adoption and reduce manual transactions and are increasing our investment in technology to drive improved customer experience and operational efficiency.

People Risk

We continue to monitor workforce capacity and capability requirements and have put in place measures to ensure our people are properly supported and able to work safely during the Covid-19 outbreak. We have complied with the workforce nationalisation requirements in all countries in which we operate and continue to invest in recruitment and retention of local nationals.

Liquidity and Funding Ratios

As at 31 December 2020, HSBC Bank Middle East was above regulatory and internal minimum levels for the LCR and NSFR metrics.

Liquidity coverage ratio (‘LCR’)

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

Delegated Act (‘DA’) LCR

	2020	2019
	%	%
HSBC Bank Middle East Limited	**389**	242

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

DFSA LCR

	2020	2019
	%	%
HSBC Bank Middle East Limited	**400**	245

Net stable funding ratio (‘NSFR’)

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

NSFR-295

	2020	2019
	%	%
HSBC Bank Middle East Limited	**164**	160

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

DFSA NSFR

	2020	2019
	%	%
HSBC Bank Middle East Limited	**164**	161

Components of Net Stable Funding Ratio at 31 December 2020

	In currency amount (US$000)	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted values
ASF (available stable funds) Item						
1	**Capital**	–	–	–	5,959,188	5,959,188
2	Regulatory Capital	–	–	–	5,959,188	5,959,188
3	Other capital	–	–	–	–	–
4	**Retail deposits/PSIAs and deposits/PSIAs from small business customers:**	–	12,762,222	–	–	11,486,000
5	Stable Deposits/PSIAs	–	–	–	–	–
6	Less stable deposits/PSIAs	–	12,762,222	–	–	11,486,000
7	**Wholesale funding:**	–	16,023,589	2,105,018	4,457,069	11,999,785
8	Operational deposits / operational accounts		5,168,494	–	–	2,584,247
9	Other wholesale funding		10,855,095	2,105,018	4,457,069	9,415,538
10	**Liabilities with matching interdependent assets**	–	–	–	–	–
11	**Other liabilities:**	–	1,185,672	–	–	–
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	–	1,185,672	–	–	–
14	**Total ASF**	–	29,971,483	2,105,018	10,416,257	29,444,973
RSF (Required stable funds) Item						
15	**Total NSFR high-quality liquid assets ('HQLA')**	–	12,977,770	256,832	2,592,399	398,363
16	**Deposits/PSIAs held at other financial institutions for operational purposes**	–	–	–	–	–
17	**Performing loans and securities (including Shari'a compliant securities):**	–	10,351,173	3,804,997	11,665,501	14,753,557
18	Performing loans to financial institutions secured by Level 1 HQLA	–	1,509,800	–	–	150,980
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	2,685,755	322,190	1,531,228	2,095,186
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, Central Banks and PSEs, of which:	–	6,044,017	3,362,938	8,370,838	11,201,772
21	*With a risk weight of less than or equal to 50%*	–	1,043,525	446,375	3,084,593	2,749,935
22	Performing residential mortgages, of which:	–	79,210	74,588	1,545,184	1,081,269
23	*With a risk weight of less than or equal to 50%*	–	79,210	74,588	1,545,184	1,081,269
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	32,391	45,281	218,251	224,350
25	**Assets with matching interdependent liabilities**	–	–	–	–	–
26	**Other Assets**	–	488,415	–	729,363	1,217,778
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	–	–	–	80,278	80,278
30	NSFR derivative liabilities before deduction of variation margin posted	–	–	–	373,695	373,695
31	All other assets not included in the above categories	–	488,415	–	275,390	763,805
32	**Off-balance sheet items**	–	34,258,568	–	–	1,586,521
33	**Total RSF**	–	58,075,926	4,061,829	14,987,263	17,956,219
34	**Net Stable Funding Ratio (%)**					164

Components of Net Stable Funding Ratio at 31 December 2019 (continued)

In currency amount (US$000)		Unweighted value by residual maturity: No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted values
ASF (available stable funds) Item						
1	Capital	—	—	—	5,941,551	5,941,551
2	Regulatory Capital	—	—	—	5,941,551	5,941,551
3	Other capital	—	—	—	—	—
4	Retail deposits/PSIAs and deposits/PSIAs from small business customers:	—	11,669,480	—	—	10,502,532
5	Stable Deposits/PSIAs	—	—	—	—	—
6	Less stable deposits/PSIAs	—	11,669,480	—	—	10,502,532
7	Wholesale funding:	—	13,611,245	1,149,332	4,864,695	10,824,078
8	Operational deposits / operational accounts		5,086,312	—	—	2,543,156
9	Other wholesale funding		8,524,933	1,149,332	4,864,695	8,280,922
10	Liabilities with matching interdependent assets	—	—	—	—	—
11	Other liabilities:	—	1,859,143	—	—	—
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	—	1,859,143	—	—	—
14	Total ASF	—	27,139,868	1,149,332	10,806,246	27,268,161
RSF (Required stable funds) Item						
15	Total NSFR high-quality liquid assets (HQLA)	—	10,066,690	946,333	2,743,518	365,693
16	Deposits/PSIAs held at other financial institutions for operational purposes	—	—	—	—	—
17	Performing loans and securities (including Shari'a compliant securities):	—	10,584,801	3,956,512	9,675,780	13,622,535
18	Performing loans to financial institutions secured by Level 1 HQLA	—	294,807	202,603	—	130,782
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	2,878,564	393,688	607,367	1,235,996
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, Central Banks and PSEs, of which:	—	7,249,485	3,266,243	7,307,001	10,942,518
21	*With a risk weight of less than or equal to 50%*	—	2,190,429	234,150	2,631,488	2,922,756
22	Performing residential mortgages, of which:	—	95,664	89,147	1,559,614	1,106,155
23	*With a risk weight of less than or equal to 50%*	—	95,664	89,147	1,559,614	1,106,155
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	—	66,281	4,831	201,798	207,084
25	Assets with matching interdependent liabilities	—	—	—	—	—
26	Other Assets	—	798,620	—	542,347	1,340,967
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	—	—	—	85,266	85,266
30	NSFR derivative liabilities before deduction of variation margin posted	—	—	—	219,169	219,169
31	All other assets not included in the above categories	—	798,620	—	237,912	1,036,532
32	Off-balance sheet items	—	34,573,682	—	—	1,626,979
33	Total RSF	—	56,023,793	4,902,845	12,961,645	16,956,174
34	Net Stable Funding Ratio (%)					161

Capital requirement

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

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

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

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

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

The PIB requires an authorised firm to:

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

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

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

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

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

In response to the Covid-19 pandemic, DFSA in its letter to the bank dated 25 June 2020, decided to extend and refresh its approach to IFRS9 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 Core 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

Below figures are post-application of the capital relief provided by the prudential filter:

Capital structure at 31 December (solo basis)

	2020	2019
	US$000	US$000
Composition of regulatory capital		
Common Equity Tier 1 capital[1]	**4,969,411**	4,901,691
Total Tier 1 capital	**4,969,411**	4,901,691
Tier 2 capital	**989,777**	1,039,860
Total regulatory capital	**5,959,188**	5,941,551
Risk-weighted assets		
Credit and counterparty risk	**26,461,218**	26,370,630
Market risk	**1,761,875**	1,780,820
Operational risk	**3,044,479**	3,090,351
	31,267,572	31,241,801
Capital ratios		
Common Equity Tier 1 ratio	**15.89%**	15.69 %
Capital adequacy ratio	**19.06 %**	19.02 %
Leverage ratio	**7.47%**	7.76 %

1 *Adjustments to / deductions from CET1 Capital:*

	2020	2019
	US$000	US$000
Other Intangible Assets	**110,870**	62,997
Deferred tax assets	**21,388**	—
Reserves	**9,830**	10,237

How we do business

We conduct our business intent on supporting the sustained success of our customers, people and other stakeholders. This section outlines how we are working to meet our responsibilities in this regard.

Customers

We create value by providing customers with products and services that meet their needs in a way that fits seamlessly into their lives. We are open to feedback and aim to take action in a timely manner if things go wrong.

Digital and technology

We continue to invest in our digital and technology services to help make banking simpler and safer, prioritising assistance for customers, and providing digital solutions to support their growth ambitions. In 2020, over 96% of payments and transfers by our WPB customers in the UAE were completed through mobile and online banking and 63% of our customers were digitally active. We introduced new features to the UAE mobile app and achieved improved app ratings. We also introduced an online trading platform. Our corporate customers increased their use of our digital services, with mobile app downloads of our core corporate digital platform, HSBCnet, increasing 15% in 2020.

Customer satisfaction

We continue to evolve how we receive feedback from our customers to put them at the centre of decision making. To improve how we serve our customers, we are open to feedback and acknowledge when things go wrong. We continued to focus on staff training in each of our global businesses and emphasise the importance of recording complaints. This will improve our complaint handling expertise and help ensure our customers are provided with fair outcomes.

Conduct

We are committed to providing customers with products that meet their needs. We have guidelines to help deliver fair outcomes for our customers as well as to help maintain orderly and transparent financial markets.

Covid-19

The Covid-19 outbreak has posed significant challenges for our customers. Our immediate priority has been to provide them with support and flexibility. This has included offering payment relief as part of government and regulatory schemes and our own relief measures. In the UAE, we provided relief to 3,153 retail customers and 143 wholesale customers. We have taken steps to keep many of our branches open while protecting customers and our colleagues. However, with customers doing more of their banking online, we have also deployed new technology, including video calls and digital signatures, to help enable them to engage with us in new ways.

Doing business responsibly

We uphold high standards of corporate governance and are committed to working with our regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing our industry. This includes working closely with regulators to help customers transition away from interbank offered rates. We are committed to protecting the information we hold and continue our efforts to combat financial crime. We respect global standards on human rights in our workplace and our supply chains.

Safeguarding data

The threat of cyber-attacks remains a concern for the HSBC Group, as it does across the entire financial sector. In 2020, we continued to strengthen our cyber defences to enhance our cybersecurity capabilities. We are committed to protecting and respecting the data we hold, and process, in accordance with the laws and regulations of the geographies in which we operate.

Financial crime risk management

We have continued our efforts to combat financial crime risks and reduce their impact on HSBC and the wider world. We have embedded a strong financial crime risk management framework across all global businesses and all countries and territories in which we operate. We continue to invest in new technology to enable us to make an impact in the fight against financial crime.

Respecting human rights

We recognise our role in respecting human rights, in line with the UN Guiding Principles' Protect, Respect and Remedy framework. We have developed local initiatives in this respect, including in relation to our customers and suppliers. In doing so, we engaged with external experts, trained front-line staff and enhanced processes. The supplier initiative involved a sustainability risk pilot conducted in 2020 to assess the ethical and environmental risk for a selection of UAE suppliers. No indicators of modern slavery where identified but other findings including in respect of policies, procedures and practices were with remediation plans put in place and monitored in terms of renewal decisions.

Employees

Our organisation has been shaped by the many cultures and communities we serve, with around 5,600 full time equivalent employees in 5 markets representing over 90 nationalities. Our culture is underpinned by our values of being open, connected and dependable. We are striving to build a fully inclusive organisation that prioritises well-being, invests in learning and careers and prepares our colleagues for the future of work.

The future of work

The Covid-19 outbreak taught us many roles can be undertaken effectively outside of our branches and offices, accelerating our focus on enabling greater flexibility in future working arrangements. Reskilling is also a key priority for us and we are investing in a programme to build future skills.

Inclusion

We continue efforts to build more gender-balanced teams. Female employees represent 49% of total employees and 30% of senior leaders (classified as 0 – 3 in our global career band structure). Initiatives to support employees with disabilities and to strengthen the ethnic and cultural diversity of our teams were also activated in 2020.

HSBC is highly engaged and committed to achieve the nationalisation requirements set by regulators in the region. In the UAE, HSBC supported the Central Bank's 2020 strategy to retain nationals in the banking sector and fully achieved its target. Going forward, HSBC is committed to achieve the country's vision of increasing Emiratis in the banking sector over the next couple of years, to ensure that not only job opportunities are available, but developmental and growth opportunities as well.

Well-being

The well-being of our people remains a key priority with focus on mental health, flexible working and financial capability. To celebrate World Mental Health Day, we participated in a global awareness campaign which included virtual mental health events featuring external experts providing our people with advice on a range of mental health-related topics including building resilience and how to manage stress.

Learning and skills development

We have a growing range of tools and resources to help colleagues take ownership of their development and career. This includes the HSBC University, our one-stop shop for learning, our My HSBC Career portal which offers career development resources and information on managing change, and our global mentoring system. Risk management remains central to development and is part of our mandatory training.

Employee engagement

The Group runs a Snapshot survey every six months with the results reported to executive committees and used by managers to plan and make decisions. In July 2020 we had a record response rate of 52% for Snapshot which reported a 72% score for Employee Engagement (compared to 67% in 2019). We encourage a 'speak up' culture. At times individuals may not feel comfortable speaking up through the usual channels and our global whistleblowing channel, HSBC Confidential, allows our colleagues and other stakeholders to raise concerns confidentially.

Covid-19

The Covid-19 outbreak tested our colleagues in many ways and they adapted quickly to the fast-changing environment. In branches, we introduced social distancing measures, provided personal protective equipment, reduced operating hours and offered virtual appointments. For office workers, we made sure cybersecurity controls and software supported home working. We worked closely with our people, supporting them to undertake activities that were outside their normal scope to help meet the needs of our customers, and to keep as many colleagues as possible engaged and working. We provided new and enhanced well-being support to employees. More than half of our colleagues participated in our Covid-19 well-being survey, with 80% saying they felt HSBC cares about their well-being.

Climate

To achieve our ambition to be a net zero bank, we can make changes both in our own operations, and for our customers through our financing portfolio.

Becoming a net zero bank

We aim to bring our operations and supply chain to net zero carbon emissions by 2030 or sooner. In 2020, our total carbon dioxide emissions were 18,032 tonnes, a reduction of almost 38% compared to 2011 (our baseline year).

Supporting our customers to thrive in transition

At the heart of our climate plan is a goal to align our financed emissions to the Paris Agreement goal of net zero by 2050 or sooner. This means making financing decisions with a consideration for climate change, and intensifying our support for customers in their transition to lower carbon emissions.

In 2020, the HSBC Group announced its aim to provide between $750bn and $1tn of financing and investment to support our customers to transition to lower carbon emissions. While the metrics and interim targets to measure this initiative are still in development, the Group has set out a high-level framework to facilitate the deployment of systems and processes to achieve our ambition.

Case study: Etihad Airways and transition finance

We played a key role in the world's first 'transition' sukuk to help reduce carbon emissions from the aviation industry. Etihad Airways will use the $600m proceeds for energy-efficient aircraft and research and development into sustainable aviation fuel. Transition finance supports companies to make progress towards commitments to cut carbon that are in line with the goals of the Paris Agreement on climate change. This sukuk included a commitment from the airline to pay a penalty in the form of carbon offsets if it fails to meet its short-term target to reduce the carbon intensity of its passenger fleet. We acted as joint global coordinator and joint sustainability structuring agent on the deal, as well as joint bookrunner and deal manager.

Prior to the 2020 announcement, in 2017 the Group committed to financing or facilitating $100 billion in sustainable financing and investment by 2025. By 2020, globally, HSBC had reached approximately $90bn. HBME's cumulative contribution was around $2.8bn detailed below. In 2020 and 2019 we won the Euromoney Award for the Middle East's Best Bank for Sustainable Finance.

Facilitation

We provide advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social and sustainable bonds, finance advisory mandates, short-term debt, and debt and equity capital markets. Our cumulative facilitation is almost $0.5bn at the end of 2020, increasing from $0.1bn at the end of 2018. In 2019 we played an instrument role in the Majid Al Futtaim green sukuk, the first non-sovereign green sukuk globally.

Financing

We provide lending for specific finance activities. Products include project finance (e.g. financing of renewable infrastructure projects) and green loans (e.g. financing of eligible green products). Our cumulative financing is almost $2.3bn at the end of 2020, increasing from $0.6bn at the end of 2018. We have financed a range of green and sustainable projects, including the extension of the Dubai Metro, LEED Gold certified green buildings and renewable energy projects.

We recently launched our Green Trade product, to support our trade and receivables finance customers in their sustainable projects. We issued the first deal of its kind in the region in 2020, raising funds for UAE-based Lamprell to support the Seagreen Offshore Wind Farm project off the coast of Scotland

For our retail banking customers in the UAE, we have developed both a Green Car Loan and a Green Mortgage, providing discounts on both the interest rate and processing fees for electric and hybrid vehicles, and homes built with green credentials. We have a leading position in electric vehicle financing, which has helped us increase our electric vehicle financing by 30% in 2020 compared to 2019.

In terms of sustainable investments for customers, in 2020 we launched the Schroders Sustainable Multi Asset Income Fund in the UAE. We now have nine sustainable funds available for our investors, compared to three in 2019. We have also started an online trading platform, which includes Sustainable Securities (ETF ad Equities). These initiatives have contributed to an increase in sustainable assets under management in 2020.

Sustainability risk management

We define sustainability risk as the risk that the financial services that we provide to customers, and our own activities, could contribute to unacceptable impacts on people or the environment. Our sustainability risk policies define our appetite for business in specific sectors, and seek to encourage customers to meet good international standards of practice. Where we identify activities that could cause material negative impacts, we will only provide finance if we can confirm customers are managing these risks responsibly. Our Reputational and Sustainability Risk team is responsible for reviewing, implementing and managing our sustainability risk policies. Our sustainability policies are being aligned with our approach to climate risk as well as our net zero commitments over a period of time, and the policies are being further enhanced during 2021. We are putting in place a governance framework to manage the risk associated with Climate Risk and have already established a Climate Risk Oversight Forum, made up of senior representatives from both the first and second lines of defence.

Community

Throughout 2020, we have continued to focus on supporting the community with the future skills needed to thrive in a constant changing work environment and fostering sustainable business development. We also supported communities via Covid-19 relief measures, other projects and charitable contributions of around $5.1m and more than 1,300 volunteering hours (working and non-working).

Future Skills

We have supported more than 3,500 students, 300 teachers and 570 schools, with our two flagship programmes: Tatawwar and Taqaddam. These programmes aim to build the soft skills and entrepreneurship potential of youth across the region.

Entrepreneurship

We have supported 137 small and medium, and mid-market enterprises in advancing in their sustainability strategy and targets. This has been achieved through the flagship programmes implemented in the UAE and other countries across the Middle East: C3 Social Impact Accelerator, Living Business, Target Climate and TiE Sustainable Mentorship Programme.

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ALGERIA

El Mohammadia branch
Hydra branch
Oran branch

BAHRAIN

Seef – Main Branch Adliya
Manama – Batelco Building Sanad

KUWAIT

Kuwait City – Sharq Area

QATAR

Doha – Airport Road (Main Branch)
Doha – City Centre
Doha – Salwa Road

UNITED ARAB EMIRATES

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

Principal Subsidiary Companies

HSBC Financial Services (Middle East) Limited

HSBC Middle East Securities LLC

HSBC Middle East Asset Company LLC *(formerly HSBC Middle East Finance Company Limited)*

HSBC Insurance Services (Lebanon) S.A.L.

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

Associated Companies

MENA Infrastructure Fund (GP) Limited

Special Connections With These Members Of The HSBC Group

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

HSBC BANK MIDDLE EAST LIMITED

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