SUPPLEMENTARY LISTING PARTICULARS

HSBC Bank Middle East Limited

(a company limited by shares and existing under the laws of the Dubai International Financial Centre ("DIFC") in Dubai, the United Arab Emirates ("UAE") under registered number 2199 with its registered address at Level 1, Building No.8, Gate Village, DIFC, P.O. Box 502601, Dubai, UAE, which is lead regulated by the Dubai Financial Services Authority)

as Issuer

US$7,000,000,000 DEBT ISSUANCE PROGRAMME

This supplement (the "**Supplement**") to the information memorandum dated 13 July 2017 relating to the US$7,000,000,000 debt issuance programme (the "**Programme**") of HSBC Bank Middle East Limited (the "**Information Memorandum**", which constitutes listing particulars for the purposes of listing on the Official List of the Irish Stock Exchange ("**Listing**") and trading on the Global Exchange Market of the Irish Stock Exchange and, for the avoidance of doubt, which does not constitute (i) a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) or (ii) a base prospectus for the purposes of Directive 2003/71/EC (as amended)) constitutes supplementary listing particulars (pursuant to rule 3.10 of the Global Exchange Market Listing and Admission to Trading – Rules) for the purposes of Listing.

Terms defined in the Information Memorandum have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Information Memorandum.

This Supplement has been approved by the Irish Stock Exchange for the purposes of Listing.

HSBC Bank Middle East Limited (as issuer, the "**Issuer**") accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The purpose of this Supplement is to disclose that the Issuer has published its unaudited interim financial statements for the six-month period ending 30 June 2017 (the "**2017 Interim Financial Statements**"). A copy of the 2017 Interim Financial Statements is set out in the Annex hereto.

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in or incorporated by reference in the Information Memorandum prior to the date of this Supplement, the statement in this Supplement will prevail.

Save as disclosed in this Supplement, there has been no significant change and no significant new matter has arisen since the publication of the Information Memorandum.

31 July 2017

ANNEX

2017 INTERIM FINANCIAL STATEMENTS

HSBC Bank Middle East Limited

Interim Financial Statements 2017

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Presentation of information

This document comprises the *Interim Financial Statements 2017* for HSBC Bank Middle East Limited ('the bank') and its subsidiary undertakings (together 'the group'). It contains Condensed Financial Statements, together with the Auditor's review report. References to 'HSBC' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries.

In accordance with IAS 34 the *Interim Report* is intended to provide an update on the *Annual Report and Accounts 2016* and therefore focuses on events during the first six months of 2017 rather than duplicating information previously reported.

Condensed Financial Statements

Consolidated income statement

		Half-year to	
		30 Jun	30 Jun
		2017	2016
	Notes	**US$000**	US$000
Net interest income		**464,702**	465,152
– interest income		**538,917**	533,544
– interest expense		**(74,215)**	(68,392)
Net fee income		**225,067**	245,981
– fee income		**258,686**	275,755
– fee expense		**(33,619)**	(29,774)
Net trading income		**118,075**	154,420
– trading income excluding net interest income		**126,047**	162,831
– net interest expense on trading activities		**(7,972)**	(8,411)
Net (expense)/income from financial instruments designated at fair value		**(60)**	7,733
Gains less losses from financial investments		**(4,784)**	12,689
Dividend income		**1,327**	1,482
Other operating income, net		**81,495**	33,952
Net operating income before loan impairment charges and other credit risk provisions		**885,822**	921,409
Loan impairment charges and other credit risk provisions	*5*	**(87,514)**	(33,199)
Net operating income		**798,308**	888,210
Employee compensation and benefits		**(254,317)**	(262,494)
General and administrative expenses		**(168,883)**	(156,007)
Depreciation and impairment of property, plant and equipment		**(7,077)**	(6,626)
Amortisation and impairment of intangible assets		**(2,945)**	(3,005)
Total operating expenses		**(433,222)**	(428,132)
Operating profit		**365,086**	460,078
Share of profit in associates		**139**	1,007
Profit before tax		**365,225**	461,085
Tax expense		**(66,308)**	(86,070)
Profit for the period		**298,917**	375,015
Attributable to:			
– shareholders of the parent company		**298,905**	374,673
– non-controlling interests		**12**	342
Profit for the period		**298,917**	375,015

The accompanying notes on pages 8 to 16 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2017	30 Jun 2016
	US$000	US$000
Profit for the period	**298,917**	375,015
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments	**(790)**	(18,261)
– fair value losses	**(3,754)**	(9,860)
– fair value losses/(gains) reclassified to the income statement	**777**	(9,381)
– amounts reclassified to the income statement in respect of impairment losses	**2,646**	1,097
– income taxes	**(459)**	(117)
Cash flow hedges	**5,508**	13,308
– fair value gains	**6,120**	14,786
– income taxes	**(612)**	(1,478)
Exchange differences	**(5,995)**	(4,364)
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	**(2,600)**	–
– before income taxes	**(2,600)**	–
– income taxes	**–**	–
Other comprehensive expense for the period, net of tax	**(3,877)**	(9,317)
Total comprehensive income for the period	**295,040**	365,698
Attributable to:		
– shareholders of the parent company	**295,028**	365,356
– non-controlling interests	**12**	342
Total comprehensive income for the period	**295,040**	365,698

The accompanying notes on pages 8 to 16 form an integral part of these financial statements.

Consolidated statement of financial position

	Notes	At 30 Jun 2017 US$000	31 Dec 2016 US$000
Assets			
Cash and balances at central banks		**465,818**	462,057
Items in the course of collection from other banks		**67,114**	47,053
Trading assets	10	**562,205**	182,406
Derivatives	10	**1,125,372**	1,319,251
Loans and advances to banks		**6,408,709**	6,249,298
Loans and advances to customers	4,5	**18,666,621**	21,010,573
Reverse repurchase agreements – non-trading		**1,063,907**	1,050,843
Financial investments	10	**6,537,680**	6,582,181
Assets held for sale		**—**	851,691
Prepayments, accrued income and other assets		**845,548**	684,891
Current tax assets		**2,518**	3,881
Interests in associates		**1,797**	1,658
Intangible assets		**12,270**	13,458
Deferred tax assets		**209,234**	209,111
Total assets		**35,968,793**	38,668,352
Liabilities and equity			
Liabilities			
Deposits by banks		**1,916,024**	3,246,654
Customer accounts		**22,710,330**	22,588,927
Repurchase agreements – non-trading		**79,893**	–
Items in the course of transmission to other banks		**97,210**	90,415
Trading liabilities	10	**1,451,261**	1,496,561
Financial liabilities designated at fair value	7,10	**403,950**	401,592
Derivatives	10	**1,158,028**	1,409,040
Debt securities in issue	8	**2,098,113**	2,645,483
Liabilities of disposal groups held for sale		**—**	804,272
Accruals, deferred income and other liabilities		**1,518,525**	1,617,334
Current tax liabilities		**128,269**	149,666
Provisions		**48,869**	43,789
Deferred tax liabilities		**—**	523
Total liabilities		**31,610,472**	34,494,256
Equity			
Called up share capital	15	**931,055**	931,055
Share premium account	15	**61,346**	–
Other reserves		**(107,998)**	(106,760)
Retained earnings		**3,469,809**	3,345,703
Total shareholders' equity		**4,354,212**	4,169,998
Non-controlling interests		**4,109**	4,098
Total equity		**4,358,321**	4,174,096
Total liabilities and equity		**35,968,793**	38,668,352

The accompanying notes on pages 8 to 16 form an integral part of these financial statements.

G Elhedery

Chief Executive Officer and Deputy Chairman

Consolidated statement of cash flows

	Half-year to	
	30 Jun 2017	30 Jun 2016
	US$000	US$000
Profit before tax	**365,225**	461,085
Cash flows from operating activities		
Adjustments for:		
Net loss/(gain) from investing activities	**2,438**	(13,581)
Share of profits in associates	**(139)**	(1,007)
Other non-cash items included in profit before tax	**91,425**	18,064
Change in operating assets	**1,833,770**	196,274
Change in operating liabilities	**(2,615,827)**	(857,122)
Elimination of exchange differences[1]	**8,933**	(14,082)
Dividends received from associates	**—**	1,312
Contribution paid for defined benefit plans	**—**	(536)
Tax paid	**(86,345)**	(130,722)
Net cash used in operating activities	**(400,520)**	(340,315)
Cash flows from investing activities		
Purchase of financial investments	**(2,194,300)**	(3,509,890)
Proceeds from the sale and maturity of financial investments	**1,266,794**	1,687,309
Purchase of property, plant and equipment	**(3,521)**	(7,715)
Proceeds from sale of property, plant and equipment	**2,020**	—
Net purchase of intangible assets	**(1,759)**	(828)
Net cash flows from other investing activities	**124,938**	16,900
Net cash used in investing activities	**(805,828)**	(1,814,224)
Cash flows from financing activities		
Dividends paid to shareholders of the parent company	**(163,000)**	(420,000)
Net cash used in financing activities	**(163,000)**	(420,000)
Net decrease in cash and cash equivalents	**(1,369,348)**	(2,574,539)
Cash and cash equivalents at 1 Jan	**7,208,806**	8,996,879
Exchange differences in respect of cash and cash equivalents	**50,456**	11,603
Cash and cash equivalents at 30 Jun	**5,889,914**	6,433,943

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

The accompanying notes on pages 8 to 16 form an integral part of these financial statements.

Consolidated statement of changes in equity

	Called up share capital and share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	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 2017	**931,055**	**3,345,703**	**17,139**	**(3,358)**	**(105,220)**	**(15,321)**	**4,169,998**	**4,098**	**4,174,096**
Profit for the period	**—**	**298,905**	**—**	**—**	**—**	**—**	**298,905**	**12**	**298,917**
Other comprehensive income (net of tax)	**—**	**(2,573)**	**(512)**	**5,508**	**(6,300)**	**—**	**(3,877)**	**—**	**(3,877)**
– available-for-sale investments	**—**	**—**	**(790)**	**—**	**—**	**—**	**(790)**	**—**	**(790)**
– cash flow hedges	**—**	**—**	**—**	**5,508**	**—**	**—**	**5,508**	**—**	**5,508**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**—**	**(2,600)**	**—**	**—**	**—**	**—**	**(2,600)**	**—**	**(2,600)**
– exchange differences	**—**	**27**	**278**	**—**	**(6,300)**	**—**	**(5,995)**	**—**	**(5,995)**
Total comprehensive income for the period	**—**	**296,332**	**(512)**	**5,508**	**(6,300)**	**—**	**295,028**	**12**	**295,040**
Ordinary share issued	**61,346**	**—**	**—**	**—**	**—**	**—**	**61,346**	**—**	**61,346**
Dividends to shareholders	**—**	**(163,000)**	**—**	**—**	**—**	**—**	**(163,000)**	**—**	**(163,000)**
Exercise and lapse of share options and vesting of share awards	**—**	**(5,859)**	**—**	**—**	**—**	**—**	**(5,859)**	**—**	**(5,859)**
Cost of share-based payment arrangements	**—**	**5,333**	**—**	**—**	**—**	**—**	**5,333**	**—**	**5,333**
Other movements	**—**	**(8,700)**	**66**	**—**	**—**	**—**	**(8,634)**	**(1)**	**(8,635)**
At 30 Jun 2017	**992,401**	**3,469,809**	**16,693**	**2,150**	**(111,520)**	**(15,321)**	**4,354,212**	**4,109**	**4,358,321**
At 1 Jan 2016	931,055	3,899,654	35,019	(8,384)	(98,964)	(15,321)	4,743,059	3,236	4,746,295
Profit for the period	—	374,673	—	—	—	—	374,673	342	375,015
Other comprehensive income (net of tax)	—	(30)	(18,255)	13,308	(4,340)	—	(9,317)	—	(9,317)
– available-for-sale investments	—	—	(18,261)	—	—	—	(18,261)	—	(18,261)
– cash flow hedges	—	—	—	13,308	—	—	13,308	—	13,308
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	—	—	—	—	—	—	—	—
– exchange differences	—	(30)	6	—	(4,340)	—	(4,364)	—	(4,364)
Total comprehensive income for the period	—	374,643	(18,255)	13,308	(4,340)	—	365,356	342	365,698
Ordinary share issued	—	—	—	—	—	—	—	—	—
Dividends to shareholders	—	(920,000)	—	—	—	—	(920,000)	—	(920,000)
Exercise and lapse of share options and vesting of share awards	—	—	—	—	—	—	—	—	—
Cost of share-based payment arrangements	—	—	—	—	—	—	—	—	—
Other movements	—	(1,738)	35	—	—	—	(1,703)	—	(1,703)
At 30 Jun 2016	931,055	3,352,559	16,799	4,924	(103,304)	(15,321)	4,186,712	3,578	4,190,290

The accompanying notes on pages 8 to 16 form an integral part of these 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 ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

2 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of the group have been prepared in accordance with IAS 34 'Interim Financial Reporting' ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). These interim condensed consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2016.*

At 30 June 2017, there were no unendorsed standards effective for the half-year ended 30 June 2017 affecting these interim condensed consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

Standards applied during the half-year to 30 June 2017

The group has adopted the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017. As a result, the effects of changes in those liabilities' credit risk is presented in other comprehensive income with the remaining effect presented, when required, in profit or loss. As permitted by the transitional requirements of IFRS 9, comparatives have not been restated. Adoption increased profit before tax by US$2.6 million with the opposite effect on other comprehensive income, with no effect on net assets.

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to the impairment of loans and advances, the valuation of financial instruments, provisions and the recognition of deferred tax asset. There was no change in the current period to the critical accounting estimates and judgements applied in 2016, which are stated in the *Annual Report and Accounts 2016.*

(c) Composition of the group

Lebanon

On 16 November 2016, the bank entered into an agreement with BLOM BANK S.A.L. to sell the banking operations in Lebanon and on 16 June 2017 completed the disposal.

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of the group are provided in the *Annual Report and Accounts 2016*. The IFRS 9 'Financial Instruments' Programme's focus is on the preparation for the parallel run which will commence during the second half of 2017 in accordance with the project plan. Until this work is sufficiently advanced, we will not have a reliable understanding of the potential impact on the financial statements and any consequential effects on regulatory capital requirements.

(e) Accounting policies

Except as described above, the accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described in the *Annual Report and Accounts 2016*, as are the methods of computation.

3 Dividends

Dividends paid to shareholders of the parent company

	Half-year to			
	30 Jun 2017		30 Jun 2016	
	Per share	**Total**	Per share	Total
	US$	**US$000**	US$	US$000
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	**0.0269**	**25,000**	0.2256	210,000
In respect of current year:				
– first interim dividend	**0.1482**	**138,000**	0.2256	210,000
– special dividend	**—**	**—**	0.5369	500,000
Total	**0.1751**	**163,000**	0.9881	920,000

4 Concentration of loans and advances

	Gross loans and advances to customers	
	Total	As a % of total gross loans
At 30 Jun 2017	**US$000**	**%**
Personal	**4,144,402**	**20.93**
– residential mortgages	**1,984,485**	**10.02**
– other personal	**2,159,917**	**10.91**
Corporate and commercial	**14,756,349**	**74.54**
– commercial, industrial and international trade	**7,917,975**	**39.99**
– commercial real estate	**599,606**	**3.03**
– other property-related	**1,413,324**	**7.14**
– government	**1,211,261**	**6.12**
– other commercial	**3,614,183**	**18.26**
Financial		
– non-bank financial institutions	**897,168**	**4.53**
Total gross loans and advances to customers	**19,797,919**	**100.00**
Impaired loans		
– as a percentage of gross loans and advances to customers	**7.02%**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**5.71%**	
At 31 Dec 2016		
Personal	4,331,090	19.55
– residential mortgages	2,027,406	9.15
– other personal	2,303,684	10.40
Corporate and commercial	15,451,630	69.74
– commercial, industrial and international trade	7,731,352	34.90
– commercial real estate	538,966	2.43
– other property-related	1,613,438	7.28
– government	1,361,029	6.14
– other commercial	4,206,845	18.99
Financial		
– non-bank financial institutions	2,372,320	10.71
Total gross loans and advances to customers	22,155,040	100.00
Impaired loans		
– as a percentage of gross loans and advances to customers	6.81%	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	5.17%	

5 Loan impairment charges and other credit risk provisions

	Half-year to	
	30 Jun 2017	30 Jun 2016
	US$000	US$000
Loan impairment charges on loans and advances	**87,077**	28,299
– new allowances net of allowance releases	**98,356**	39,484
– recoveries of amounts previously written off	**(11,279)**	(11,185)
Impairment charges on debt securities and other credit risk provisions	**437**	4,900
Total	**87,514**	33,199

Movement in impairment allowances on loans and advances to customers and banks

	2017				2016			
		Customers				Customers		
	Banks individually assessed	Individually assessed	Collectively assessed	Total	Banks individually assessed	Individually assessed	Collectively assessed	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 Jan	–	946,230	198,237	1,144,467	17,994	950,079	271,098	1,239,171
Amounts written off	–	(53,880)	(58,280)	(112,160)	(16,395)	(96,293)	(57,766)	(170,454)
Recoveries of loans and advances previously written off	–	4	11,275	11,279	–	–	11,185	11,185
Charge/(release) to income statement	–	37,786	49,291	87,077	(1,599)	39,539	(9,641)	28,299
Exchange and other movements	–	1,520	(885)	635	–	2,915	31	2,946
At 30 Jun	–	931,660	199,638	1,131,298	–	896,240	214,907	1,111,147

6 Segment analysis

The basis used to identify the group's reporting segments are discussed in the *Annual Report and Accounts 2016*.

Profit/(loss) for the period

	2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
Half-year to 30 Jun	US$000	US$000	US$000	US$000	US$000	US$000
Net interest income/(expense)	196,179	108,325	111,473	–	48,725	464,702
Net fee income/(expense)	55,019	72,895	100,950	–	(3,797)	225,067
Net trading income/(expense)	19,248	14,789	90,150	–	(6,112)	118,075
Other income/(expenses)	12,770	9,623	3,400	99	52,086	77,978
Net operating income before loan impairment charges and other credit risk	283,216	205,632	305,973	99	90,902	885,822
Loan impairment charges and other credit risk provisions	(35,697)	(32,506)	(19,311)	–	–	(87,514)
Net operating income	247,519	173,126	286,662	99	90,902	798,308
Total operating expenses	(163,257)	(106,111)	(120,235)	(99)	(43,520)	(433,222)
Operating profit	84,262	67,015	166,427	–	47,382	365,086
Share of profit in associates	–	–	–	–	139	139
Profit before tax	84,262	67,015	166,427	–	47,521	365,225
By geographical region						
U.A.E.	71,025	38,488	139,080	–	37,856	286,449
Qatar	7,227	14,043	32,715	–	2,462	56,447
Rest of Middle East	6,010	14,484	(5,368)	–	7,203	22,329
Profit before tax	84,262	67,015	166,427	–	47,521	365,225

Profit/(loss) for the period (continued)

	2016					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
Half-year to 30 Jun	US$000	US$000	US$000	US$000	US$000	US$000
Net interest income/(expense)	199,337	120,083	97,414	(8)	48,326	465,152
Net fee income/(expense)	63,119	82,962	101,808	–	(1,908)	245,981
Net trading income/(expense)	23,250	22,870	116,700	2	(8,402)	154,420
Other income/(expenses)	2,423	3,181	15,952	57	34,243	55,856
Net operating income before loan impairment charges and other credit risk	288,129	229,096	331,874	51	72,259	921,409
Loan impairment charges and other credit risk provisions	(56,328)	16,573	6,556	–	–	(33,199)
Net operating income	231,801	245,669	338,430	51	72,259	888,210
Total operating expenses	(165,054)	(111,313)	(116,149)	(51)	(35,565)	(428,132)
Operating profit	66,747	134,356	222,281	–	36,694	460,078
Share of profit in associates	–	–	–	–	1,007	1,007
Profit before tax	66,747	134,356	222,281	–	37,701	461,085
By geographical region						
U.A.E.	57,801	88,016	178,909	–	26,425	351,151
Qatar	4,864	21,357	28,229	–	4,310	58,760
Rest of Middle East	4,082	24,983	15,143	–	6,966	51,174
Profit before tax	66,747	134,356	222,281	–	37,701	461,085

Balance sheet information

	2017					
	Retail Banking and Wealth Management	**Commercial Banking**	**Global Banking and Markets**	**Global Private Banking**	**Corporate Centre**	**Total**
At 30 Jun	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Loans and advances to customers (net)	**3,844,144**	**6,067,786**	**8,753,839**	**–**	**852**	**18,666,621**
Interest in associates	**–**	**–**	**–**	**–**	**1,797**	**1,797**
Total assets	**3,861,646**	**6,480,746**	**13,024,739**	**–**	**12,601,662**	**35,968,793**
Customer accounts	**10,921,311**	**4,657,198**	**6,605,437**	**–**	**526,384**	**22,710,330**
Total liabilities	**11,069,756**	**5,663,735**	**10,712,270**	**–**	**4,164,711**	**31,610,472**
At 31 Dec	2016					
Loans and advances to customers (net)	4,045,873	6,333,490	10,618,598	–	12,612	21,010,573
Interest in associates	–	–	–	–	1,658	1,658
Total assets	4,308,355	6,963,158	14,308,069	–	13,088,770	38,668,352
Customer accounts	10,617,868	5,325,799	6,066,278	–	578,982	22,588,927
Total liabilities	11,356,923	6,615,091	10,191,701	–	6,330,541	34,494,256

7 Financial liabilities designated at fair value

	At	
	30 Jun 2017	31 Dec 2016
	US$000	US$000
Debt securities in issue	**403,950**	401,592

At 30 June 2017, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of US$1.8 million (30 June 2016: US$5.8 million gain).

8 Debt securities in issue

	30 Jun 2017		31 Dec 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	US$000	**US$000**	US$000	US$000
Medium-term notes	**2,846,828**	**2,847,079**	3,556,580	3,556,181
Non-equity preference shares	**950,000**	**875,965**	950,000	859,235
Total debt securities in issue	**3,796,828**	**3,723,044**	4,506,580	4,415,416
Included within:				
– trading liabilities	**(1,294,765)**	**(1,294,765)**	(1,459,505)	(1,459,505)
– financial liabilities designated at fair value (Note 7)	**(403,950)**	**(403,950)**	(401,592)	(401,592)
Total	**2,098,113**	**2,024,329**	2,645,483	2,554,319

9 Risk management

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

The interim condensed consolidated financial statements do not include all risk management information and disclosures required in the annual financial statements, they should be read in conjunction with the *Annual Report and Accounts 2016.*

There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2016.*

10 Fair values of financial instruments

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2017 are consistent with those applied in the *Annual Report and Accounts 2016.*

Financial instruments carried at fair value and bases of valuation

	30 Jun 2017				31 Dec 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**		Quoted market price	Using observable inputs	With significant unobservable inputs	
	US$000	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000
Recurring fair value measurements								
Assets								
Trading assets	**—**	**562,205**	**—**	**562,205**	—	182,406	—	182,406
Derivatives	**—**	**1,059,818**	**65,554**	**1,125,372**	—	1,312,021	7,230	1,319,251
Financial investments: available for sale	**—**	**6,407,105**	**130,575**	**6,537,680**	—	6,511,701	70,480	6,582,181
Liabilities								
Trading liabilities	**—**	**1,451,261**	**—**	**1,451,261**	—	1,496,561	—	1,496,561
Financial liabilities designated at fair value	**—**	**403,950**	**—**	**403,950**	—	401,592	—	401,592
Derivatives	**—**	**1,092,474**	**65,554**	**1,158,028**	—	1,401,810	7,230	1,409,040

Fair value valuation bases

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

	Assets			Liabilities	
	Available for sale	**Derivatives**	**Total**	**Derivatives**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
Private equity and strategic investments	**130,575**	**—**	**130,575**	**—**	**—**
Other derivatives	**—**	**65,554**	**65,554**	**65,554**	**65,554**
At 30 Jun 2017	**130,575**	**65,554**	**196,129**	**65,554**	**65,554**
Private equity and strategic investments	70,480	—	70,480	—	—
Other derivatives	—	7,230	7,230	7,230	7,230
At 31 Dec 2016	70,480	7,230	77,710	7,230	7,230

The basis for determining the fair value of the financial instruments in the table above is explained in the *Annual Report and Accounts 2016.*

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

Movement in Level 3 financial instruments

	Assets		Liabilities
	Available for sale	Derivatives	Derivatives
	US$000	US$000	US$000
At 1 Jan 2017	**70,480**	**7,230**	**7,230**
Total gains/(losses) recognised in profit or loss	**(2,647)**	**58,324**	**58,324**
– trading income/(expense) excluding net interest income	**–**	**58,324**	**58,324**
– gains less losses from financial investments	**(2,647)**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income ('OCI')	**1,396**	**–**	**–**
– available-for-sale investments: fair value gains/(losses)	**1,370**	**–**	**–**
– exchange differences	**26**	**–**	**–**
Purchases	**61,346**	**–**	**–**
Sales	**–**	**–**	**–**
Transfers in	**–**	**–**	**–**
At 30 Jun 2017	**130,575**	**65,554**	**65,554**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2017	**(2,647)**	**65,554**	**(65,554)**
– trading income/(expense) excluding net interest income	**–**	**65,554**	**(65,554)**
– gains less losses from financial investments	**(2,647)**	**–**	**–**
At 1 Jan 2016	102,624	2,222	20,999
Total gains/(losses) recognised in profit or loss	2,527	1,610	(17,601)
– trading income/(expense) excluding net interest income	–	1,610	(17,601)
– gains less losses from financial investments	2,527	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')	(12,808)	–	–
– available-for-sale investments: fair value gains/(losses)	(12,793)	–	–
– exchange differences	(15)	–	–
Purchases	–	–	–
Sales	(22,012)	–	–
Transfers in	149	3,398	3,832
At 31 Dec 2016	70,480	7,230	7,230
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2016	(1,097)	10,421	(5,055)
– trading income/(expense) excluding net interest income	–	10,421	(5,055)
– gains less losses from financial investments	(1,097)	–	–

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

		30 Jun 2017				31 Dec 2016			
		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
	Footnote	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Derivatives, trading assets and trading liabilities	*1*	**6,555**	**(6,555)**	**–**	**–**	723	(723)	–	–
Financial investments: available for sale		**2,282**	**(1,141)**	**10,776**	**(5,387)**	2,566	(1,283)	3,106	(2,241)
Total		**8,837**	**(7,696)**	**10,776**	**(5,387)**	3,289	(2,006)	3,106	(2,241)

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

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

	30 Jun 2017				31 Dec 2016			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Private equity and strategic investments	**2,282**	**(1,141)**	**10,776**	**(5,387)**	2,566	(1,283)	3,106	(2,241)
Other derivatives	**6,555**	**(6,555)**	**–**	**–**	723	(723)	–	–
Total	**8,837**	**(7,696)**	**10,776**	**(5,387)**	3,289	(2,006)	3,106	(2,241)

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. The statistical techniques aim to apply a 95% confidence interval. When parameters are not amenable to statistical analysis, the quantification of uncertainty is judgemental, but is also guided by the 95% confidence interval.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 Jun 2017. The core range of inputs is the estimated range within which 90% of the inputs fall.

There has been no change to the key unobservable inputs to Level 3 financial instruments and inter-relationships therein which are detailed in the *Annual Report and Accounts 2016*.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value		Full range of inputs		Core range of inputs	
	Assets	Liabilities	Lower	Higher	Lower	Higher
	US$000	US$000				
Private equity and strategic investments	**130,575**	**—**	**n/a**	**n/a**	**n/a**	**n/a**
Interest rate derivatives	**137**	**137**	**47.0%**	**98.7%**	**61.6%**	**98.2%**
FX derivatives	**65,405**	**65,405**	**5.5%**	**7.5%**	**5.5%**	**7.5%**
Equity derivatives	**12**	**12**	**21.7%**	**21.7%**	**21.7%**	**21.7%**
At 30 Jun 2017	**196,129**	**65,554**				
Private equity and strategic investments	70,480	—	n/a	n/a	n/a	n/a
Interest rate derivatives	33	33	45.3%	98.5%	57.1%	98.0%
FX derivatives	7,197	7,197	0.6%	3.6%	0.6%	3.6%
Equity derivatives	—	—	—	—	—	—
At 31 Dec 2016	77,710	7,230				

11 Credit quality of financial instruments

The five credit quality classifications set out and defined in the *Annual Report and Accounts 2016* describe the credit quality of the group's lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between internal and external ratings at granular level, except to the extent each falls within a single quality classification.

The following tables set out the group's distribution of financial instruments by measures of credit quality.

Distribution of financial instruments by credit quality

	30 Jun 2017								
	Neither past due not impaired								
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Total gross amount	Impairment allowances	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cash and balances at central banks	**337,209**	**128,609**	**—**	**—**	**—**	**—**	**465,818**	**—**	**465,818**
Items in the course of collection from other banks	**—**	**—**	**67,114**	**—**	**—**	**—**	**67,114**	**—**	**67,114**
Trading assets	**215,351**	**72,346**	**234,809**	**39,699**	**—**	**—**	**562,205**	**—**	**562,205**
Derivatives	**861,133**	**130,339**	**130,190**	**3,710**	**—**	**—**	**1,125,372**	**—**	**1,125,372**
Loans and advances to customers held at amortised cost	**8,305,699**	**4,154,917**	**4,518,488**	**522,713**	**907,125**	**1,388,977**	**19,797,919**	**(1,131,298)**	**18,666,621**
– personal	**3,173,915**	**626,870**	**—**	**—**	**106,856**	**236,761**	**4,144,402**	**(212,065)**	**3,932,337**
– corporate and commercial	**4,544,735**	**3,528,047**	**4,514,894**	**271,947**	**791,653**	**1,105,073**	**14,756,349**	**(888,050)**	**13,868,299**
– non-bank financial institutions	**587,049**	**—**	**3,594**	**250,766**	**8,616**	**47,143**	**897,168**	**(31,183)**	**865,985**
Loans and advances to banks held at amortised cost	**5,440,175**	**603,856**	**346,099**	**18,579**	**—**	**—**	**6,408,709**	**—**	**6,408,709**
Reverse repurchase agreements – non-trading	**775,953**	**87,981**	**199,973**	**—**	**—**	**—**	**1,063,907**	**—**	**1,063,907**
Financial investments	**1,713,868**	**—**	**4,693,237**	**—**	**—**	**—**	**6,407,105**	**—**	**6,407,105**
– treasury and other eligible bills	**250,130**	**—**	**1,301,725**	**—**	**—**	**—**	**1,551,855**	**—**	**1,551,855**
– debt securities	**1,463,738**	**—**	**3,391,512**	**—**	**—**	**—**	**4,855,250**	**—**	**4,855,250**
Assets held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other assets	**93,288**	**202,275**	**376,083**	**36,864**	**48,649**	**73**	**757,232**	**—**	**757,232**
– endorsements and acceptances	**88,996**	**202,165**	**243,249**	**36,864**	**48,648**	**73**	**619,995**	**—**	**619,995**
– accrued income and other	**4,292**	**110**	**132,834**	**—**	**1**	**—**	**137,237**	**—**	**137,237**
At 30 Jun 2017	**17,742,676**	**5,380,323**	**10,565,993**	**621,565**	**955,774**	**1,389,050**	**36,655,381**	**(1,131,298)**	**35,524,083**

Distribution of financial instruments by credit quality (continued)

	31 Dec 2016								
	Neither past due not impaired								
	Strong	Good	Satisfactory	Sub-standard	Past due but not impaired	Impaired	Total gross amount	Impairment allowances	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cash and balances at central banks	312,761	149,296	—	—	—	—	462,057	—	462,057
Items in the course of collection from other banks	—	—	47,053	—	—	—	47,053	—	47,053
Trading assets	93,352	25,012	62,489	1,553	—	—	182,406	—	182,406
Derivatives	914,292	313,204	88,999	2,756	—	—	1,319,251	—	1,319,251
Loans and advances to customers held at amortised cost	9,781,824	5,398,238	4,057,746	548,852	859,290	1,509,090	22,155,040	(1,144,467)	21,010,573
– personal	3,301,608	661,429	—	—	131,176	236,877	4,331,090	(225,209)	4,105,881
– corporate and commercial	4,510,920	4,736,376	3,969,583	289,778	717,780	1,227,193	15,451,630	(910,883)	14,540,747
– non-bank financial institutions	1,969,296	433	88,163	259,074	10,334	45,020	2,372,320	(8,375)	2,363,945
Loans and advances to banks held at amortised cost	5,093,444	474,252	667,317	14,285	—	—	6,249,298	—	6,249,298
Reverse repurchase agreements – non-trading	564,931	485,912	—	—	—	—	1,050,843	—	1,050,843
Financial investments	1,650,332	—	4,861,369	—	—	—	6,511,701	—	6,511,701
– treasury and other eligible bills	—	—	1,274,331	—	—	—	1,274,331	—	1,274,331
– debt securities	1,650,332	—	3,587,038	—	—	—	5,237,370	—	5,237,370
Assets held for sale	240,404	69,401	295,159	206,347	14,458	21,810	847,579	(10,615)	836,964
Other assets	42,951	157,284	319,609	44,134	22,672	16,846	603,496	—	603,496
– endorsements and acceptances	40,045	157,278	211,278	44,134	21,846	16,846	491,427	—	491,427
– accrued income and other	2,906	6	108,331	—	826	—	112,069	—	112,069
At 31 Dec 2016	18,694,291	7,072,599	10,399,741	817,927	896,420	1,547,746	39,428,724	(1,155,082)	38,273,642

12 Contingent liabilities, contractual commitments and guarantees

	30 Jun 2017	31 Dec 2016
	US$000	US$000
Guarantees and other contingent liabilities		
Guarantees	**13,984,182**	14,815,185
Commitments		
Documentary credits and short-term trade-related transactions	**458,385**	326,826
Forward asset purchases	**24,142**	—
Standby facilities, credit lines and other commitments to lend	**15,693,177**	16,699,583
Total	**16,175,704**	17,026,409

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.

Guarantees and other commitments

The principal types of guarantees generally provided in the normal course of the group's banking business, and other contractual commitments, are consistent with those detailed in the *Annual Report and Accounts 2016.*

13 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. 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 30 June 2017. 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 relevant to HBME as a subsidiary of HSBC operating in the Middle East)

In October 2010, HSBC Bank USA entered into a consent order with the Office of the Comptroller of the Currency (the 'OCC'), and HSBC North America Holdings Inc. ('HNAH') entered into a consent order with the Federal Reserve Board (the 'FRB') (each an 'Order' and together, the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to the Bank Secrecy Act ('BSA') and anti-money laundering ('AML') compliance. HSBC Bank USA is not currently in compliance with the OCC Order. Steps are being taken to address the requirements of the Orders.

In December 2012, HSBC Holdings, HNAH and HSBC Bank USA entered into agreements with US and UK government agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement (the 'US DPA') with, among others, the US Department of Justice ('DoJ'); HSBC Holdings consented to a cease-and-desist order, and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB.

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK FCA to comply with certain forward-looking AML and sanctions-related obligations. In addition, HSBC Bank USA entered into civil money penalty orders with the Financial Crimes Enforcement Network of the US Treasury Department and the OCC.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1.9 billion to US authorities and undertook various further obligations, including, among others, to continue to cooperate fully with the DoJ in any and all investigations, not to commit any crime under US federal law subsequent to the signing of the agreement, and to retain an independent compliance monitor (the 'Monitor'). In February 2017, the Monitor delivered his third annual follow-up review report.

Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions compliance issues that the DoJ and HSBC are reviewing further. The potential consequences of breaching the US DPA could include the imposition of additional terms and conditions on HSBC, an extension of the agreement, including its monitorship, or the criminal prosecution of HSBC, which could, in turn, entail further financial penalties and collateral consequences. Additional consequences of breaching the DPA orders could have a material adverse effect on HSBC's business, financial condition and results of operations, including loss of business and withdrawal of funding, restrictions on performing dollar-clearing functions through HSBC Bank USA or revocation of bank licences.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

Since November 2014 three lawsuits have been filed in federal court in New York and Illinois against HBME and various other HSBC companies and other defendants, on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in Iraq and Jordan. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. These actions are at an early stage.

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

14 Related party transactions

There were no changes in the related party transactions described in the *Annual Report and Accounts 2016* that have had a material effect on the financial position or performance of HSBC in the half-year to 30 June 2017. All related party transactions that took place in the half-year to 30 June 2017 were similar in nature to those disclosed in the *Annual Report and Accounts 2016*.

15 Called up share capital and share premium

On 29 June 2017 (the 'transaction date'), the bank acquired 10.01% stake in HSBC Bank A.S. in Turkey from HSBC Bank plc. The acquisition was settled through the issuance of one ordinary share, which was allotted to its sole shareholder, HSBC Middle East Holdings BV, with a nominal value of US$1.00, at a premium of US$61.3 million recognised as share premium account as at the transaction date.

16 Events after the balance sheet date

These accounts were approved by the Board of Directors on 30 July 2017 and authorised for issue.

Independent Review Report to HSBC Bank Middle East Limited

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of HSBC Bank Middle East Limited and its subsidiaries (the 'group') as at 30 June 2017 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with with International Accounting Standard 34 – 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers Limited

30 July 2017

David R Cox

Place: Dubai, United Arab Emirates

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