HSBC Bank Middle East Limited

Interim Report

30 June 2011

Interim Report 2011

Contents

Presentation of Information

This document comprises the Interim Report 2011 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.

Condensed Financial Statements (unaudited)

Consolidated income statement for the half-year to 30 June 2011

		Half-year to	
		30 June 2011	30 June 2010
	Notes	**US$000**	US$000
Interest income		**742,149**	754,174
Interest expense		**(205,913)**	(207,048)
Net interest income		**536,236**	547,126
Fee income		**321,593**	332,364
Fee expense		**(36,724)**	(22,699)
Net fee income		**284,869**	309,665
Trading income excluding net interest income		**176,279**	154,967
Net interest income on trading activities		**12,948**	4,065
Net trading income.		**189,227**	159,032
Net income/(expense) from financial instruments designated at fair value		**(6,443)**	–
Gains less losses from financial investments		**(2,972)**	(240)
Dividend income		**1,364**	3,954
Other operating income		**15,231**	(35,646)
Net operating income before loan impairment charges and other credit risk provisions		**1,017,512**	983,891
Loan impairment charges and other credit risk provisions	*5*	**(80,545)**	(346,066)
Net operating income		**936,967**	637,825
Employee compensation and benefits		**(281,663)**	(240,877)
General and administrative expenses		**(192,677)**	(173,570)
Depreciation and impairment of property, plant and equipment		**(12,209)**	(15,711)
Amortisation of intangible assets		**(2,911)**	(3,133)
Total operating expenses		**(489,460)**	(433,291)
Operating profit		**447,507**	204,534
Share of profit in associates		**1,012**	8,093
Profit before tax		**448,519**	212,627
Tax expense		**(65,041)**	(42,018)
Profit for the period		**383,478**	170,609
Profit attributable to shareholders of the parent company		**373,012**	169,123
Profit attributable to non-controlling interests		**10,466**	1,486

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of comprehensive income for the half-year to 30 June 2011

	Half-year to	
	30 June 2011 US$000	30 June 2010 US$000
Profit for the period	**383,478**	170,609
Other comprehensive income		
Available for sale investments:	**5,827**	(10,744)
– fair value gains/(losses)	**10,612**	(12,615)
– fair value gains transferred to income statement on disposal	**(3,326)**	–
– amounts transferred to the income statement in respect of impairment losses	**210**	–
– income taxes	**(1,669)**	1,871
Cash flow hedges:	**8,941**	3,701
– fair value gains	**8,425**	9,241
– fair value losses/(gains) transferred to income statement	**2,751**	(4,614)
– income taxes	**(2,235)**	(926)
Actuarial losses on defined benefit plans:	**(6,437)**	–
– before income taxes	**(10,403)**	–
– income taxes	**3,966**	–
Exchange differences and other	**6,886**	(17,765)
Other comprehensive income for the period, net of tax	**15,217**	(24,808)
Total comprehensive income for the period	**398,695**	145,801
Total comprehensive income for the period attributable to:		
– shareholders of the parent company	**388,223**	144,306
– non-controlling interests	**10,472**	1,495
	398,695	145,801

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of financial position at 30 June 2011

	Notes	At 30 June 2011 US$000	At 31 December 2010 US$000
ASSETS			
Cash and balances at central banks		**1,223,936**	719,363
Items in the course of collection from other banks		**58,975**	61,085
Trading assets	*10*	**762,460**	718,676
Derivatives	*10*	**1,079,304**	826,578
Loans and advances to banks	*10*	**8,385,505**	8,229,772
Loans and advances to customers	*10*	**21,487,537**	20,586,712
Financial investments	*10*	**11,437,005**	8,667,721
Other assets		**1,416,595**	1,269,993
Current tax assets		**-**	183
Prepayments and accrued income		**167,026**	173,903
Interests in associates		**32,736**	29,337
Intangible assets		**12,534**	13,293
Property, plant and equipment		**117,106**	123,821
Deferred tax assets		**150,107**	173,986
Total assets		**46,330,826**	41,594,423
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	*10*	**1,536,151**	1,547,700
Customer accounts	*10*	**29,669,129**	26,343,980
Items in the course of transmission to other banks		**741,644**	766,308
Trading liabilities	*10*	**521,569**	121,733
Financial liabilities designated at fair value	*8, 10*	**508,696**	-
Derivatives	*10*	**1,060,385**	834,806
Debt securities in issue	*9, 10*	**5,779,965**	5,688,545
Other liabilities		**1,732,866**	1,924,724
Current tax liabilities		**121,571**	142,668
Accruals and deferred income		**210,527**	209,389
Provisions		**14,966**	15,372
Deferred tax liabilities		**6,165**	6,715
Retirement benefit liabilities		**76,099**	63,885
Total liabilities		**41,979,733**	37,665,825
Equity			
Called up share capital		**931,055**	931,055
Other reserves		**48,571**	24,241
Retained earnings		**3,057,961**	2,708,619
Total equity attributable to the shareholders of the parent company		**4,037,587**	3,663,915
Non-controlling interests		**313,506**	264,683
Total equity		**4,351,093**	3,928,598
Total equity and liabilities		**46,330,826**	41,594,423

S N Cooper, C*hief Executive Officer and Deputy Chairman*

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of cash flows for the half-year to 30 June 2011

	Half-year to	
	30 June 2011 US$000	30 June 2010 US$000
Cash flows from operating activities		
Profit before tax	**448,519**	212,627
Adjustments for:		
– non-cash items included in profit before tax	**133,905**	393,436
– change in operating assets	**(1,396,036)**	(376,087)
– change in operating liabilities	**3,694,548**	(121,008)
– elimination of exchange differences[1]	**(99,255)**	83,553
– net (gain)/loss from investing activities	**(1,767)**	44,690
– share of profits in associates	**(1,012)**	(8,093)
– distributions from associates	**1,102**	1,986
– contributions paid to defined benefit pension plans	**(6,479)**	(110)
– tax paid	**(56,364)**	(144,225)
Net cash generated from operating activities	**2,717,161**	86,769
Cash flows used in investing activities		
Purchase of financial investments	**(4,759,590)**	(920,629)
Proceeds from the sale and maturity of financial investments	**1,530,244**	491,246
Purchase of property, plant and equipment	**(7,216)**	(10,751)
Proceeds from the sale of property, plant and equipment	**3,387**	1,050
Purchase of intangible assets	**(2,469)**	(3,425)
Net cash used in investing activities	**(3,235,644)**	(442,509)
Cash flows from financing activities		
Dividends paid to non-controlling interests	**(15,503)**	(1,887)
Net cash used in financing activities	**(15,503)**	(1,887)
Net increase in cash and cash equivalents	**(533,986)**	(357,627)
Cash and cash equivalents at the beginning of the period	**10,983,043**	11,371,131
Exchange differences in respect of cash and cash equivalents	**53,383**	(183,316)
Cash and cash equivalents at the end of the period	**10,502,440**	10,830,188

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.*

Consolidated statement of changes in equity for the half-year to 30 June 2011

	Half-year to 30 June 2011									
			Other reserves							
	Called up share capital US$000	Retained earnings US$000	Available-for-sale fair value reserve US$000	Cash flow hedging reserve US$000	Foreign exchange reserve US$000	Other reserve US$000	Merger reserve US$000	Total share-holders' equity US$000	Non-controlling interests US$000	Total equity US$000
At 1 January	**931,055**	**2,708,619**	**48,624**	**(13,628)**	**(3,684)**	**8,281**	**(15,352)**	**3,663,915**	**264,683**	**3,928,598**
Profit for the period	**–**	**373,012**	**–**	**–**	**–**	**–**	**–**	**373,012**	**10,466**	**383,478**
Other comprehensive income (net of tax)	**–**	**(6,470)**	**5,823**	**8,941**	**6,920**	**(3)**	**–**	**15,211**	**6**	**15,217**
Available-for-sale investments	**–**	**–**	**5,827**	**–**	**–**	**–**	**–**	**5,827**	**–**	**5,827**
Cash flow hedges	**–**	**–**	**–**	**8,941**	**–**	**–**	**–**	**8,941**	**–**	**8,941**
Actuarial losses on defined benefit plans	**–**	**(6,437)**	**–**	**–**	**–**	**–**	**–**	**(6,437)**	**–**	**(6,437)**
Exchange differences and other	**–**	**(33)**	**(4)**	**–**	**6,920**	**(3)**	**–**	**6,880**	**6**	**6,886**
Total comprehensive income for the period	**–**	**366,542**	**5,823**	**8,941**	**6,920**	**(3)**	**–**	**388,223**	**10,472**	**398,695**
Dividends to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(15,503)**	**(15,503)**
Shares issued in lieu of dividends and amounts arising thereon	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exercise and lapse of share options and vesting of share awards	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cost of share-based payment arrangements	**–**	**–**	**–**	**–**	**–**	**407**	**–**	**407**	**–**	**407**
Other movements	**–**	**(17,200)**	**939**	**–**	**–**	**1,303**	**–**	**(14,958)**	**–**	**(14,958)**
Changes in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53,854**	**53,854**
At 30 June	**931,055**	**3,057,961**	**55,386**	**(4,687)**	**3,236**	**9,988**	**(15,352)**	**4,037,587**	**313,506**	**4,351,093**

	Half-year to 30 June 2010									
			Other reserves							
	Called up share capital US$000	Retained earnings US$000	Available-for-sale fair value reserve US$000	Cash flow hedging reserve US$000	Foreign exchange reserve US$000	Other reserve US$000	Merger reserve US$000	Total share-holders' equity US$000	Non-controlling interests US$000	Total equity US$000
At 1 January	931,055	2,267,418	48,592	(3,701)	(2,929)	12,082	(15,352)	3,237,165	218,166	3,455,331
Profit for the period	–	169,123	–	–	–	–	–	169,123	1,486	170,609
Other comprehensive income (net of tax)	–	(10,738)	(10,749)	3,701	(7,024)	(7)	–	(24,817)	9	(24,808)
Available-for-sale investments	–	–	(10,744)	–	–	–	–	(10,744)	–	(10,744)
Cash flow hedges	–	–	–	3,701	–	–	–	3,701	–	3,701
Actuarial losses on defined benefit plans	–	–	–	–	–	–	–	–	–	–
Exchange differences and other	–	(10,738)	(5)	–	(7,024)	(7)	–	(17,774)	9	(17,765)
Total comprehensive income for the period	–	158,385	(10,749)	3,701	(7,024)	(7)	–	144,306	1,495	145,801
Dividends to shareholders	–	–	–	–	–	–	–	–	(1,887)	(1,887)
Shares issued in lieu of dividends and amounts arising thereon	–	–	–	–	–	(33)	–	(33)	–	(33)
Exercise and lapse of share options and vesting of share awards	–	–	–	–	–	(277)	–	(277)	–	(277)
Cost of share-based payment arrangements	–	–	–	–	–	(1,057)	–	(1,057)	–	(1,057)
Other movements	–	(4,943)	382	–	–	(4,690)	–	(9,251)	–	(9,251)
Changes in ownership interests in subsidiaries	–	–	–	–	–	–	–	–	(2,441)	(2,441)
At 30 June	931,055	2,420,860	38,225	–	(9,953)	6,018	(15,352)	3,370,853	215,333	3,586,186

Notes on the Condensed Financial Statements (unaudited)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The interim 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’).

The consolidated financial statements of the group at 31 December 2010 were prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 affecting the consolidated financial statements at that date, 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. Accordingly, the group’s financial statements for the year ended 31 December 2010 were prepared in accordance with IFRSs as issued by the IASB.

At 30 June 2011, there were no unendorsed standards effective for the period ended 30 June 2011 affecting these interim 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.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (‘IFRIC’) and its predecessor body.

During the period ended 30 June 2011, the group adopted a number of standards and interpretations, and amendments thereto, which had an insignificant effect on these interim consolidated financial statements.

(b) Presentation of information

The functional currency of the bank is US dollars, which is also the presentation currency of the consolidated financial statements of the group.

(c) Comparative information

These interim consolidated financial statements include comparative information as required by IAS 34.

(d) Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported. Management believes that the group’s critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, the valuation of financial instruments and the impairment of available-for-sale financial assets. These critical accounting policies are described in the *Annual Report and Accounts 2010*.

(e) Consolidation

The interim consolidated financial statements of the group comprise the condensed financial statements of HSBC Bank Middle East Limited and its subsidiaries. The method adopted by the group to consolidate its subsidiaries is described in the *Annual Report and Accounts 2010*.

(f) Future accounting developments

At 30 June 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB which are not yet effective for these interim consolidated financial statements, the most significant of which are described below. The IASB is continuing to work on projects on insurance, revenue recognition and lease accounting, which together with IFRS 9 and the standards described below, represent widespread and significant changes to accounting requirements from 2013.

Notes on the Condensed Financial Statements (unaudited) (continued)

IFRS 9 'Financial Instruments' was described in the *Annual Report and Accounts 2010*, including the second and third phases in the IASB's project to replace IAS 39 which address the impairment of financial assets measured at amortised cost and hedge accounting. The IASB did not finalise the replacement of IAS 39 by its stated target of June 2011, and the IASB and the US Financial Accounting Standards Board have agreed to extend the timetables beyond this date to permit further work and consultation with stakeholders. As a consequence, the IASB is consulting on its proposal to change the effective date of IFRS 9 to 1 January 2015 to facilitate the adoption of the entire replacement of IAS 39. The EU is not expected to endorse IFRS 9 until the completed standard is available. Therefore, the group remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the impact of IFRS 9 as at the date of publication of these interim consolidated financial statements.

Standards and Interpretations issued by the IASB but not endorsed by the EU

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosures of Interests in Other Entities'. These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are to be applied retrospectively.

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 11 places more focus on rights and obligations rather than legal form, and introduces the concept of a joint operation. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities.

The group is currently assessing the impact of these new IFRSs, but it is impracticable to quantify their effect as at the date of publication of these interim consolidated financial statements.

In May 2011, the IASB issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement.

The group is currently assessing the impact of this new IFRS, but it is impracticable to quantify their effect as at the date of publication of these interim consolidated financial statements.

(g) Changes in composition of the group

There were no material changes in the composition of the group in the period.

2 Accounting policies

The accounting policies adopted by the group for these interim consolidated financial statements are consistent with those described in the *Annual Report and Accounts 2010*, The methods of computation applied by the group for these interim consolidated financial statements are consistent with those applied for the *Annual Report and Accounts 2010.*

Notes on the Condensed Financial Statements (unaudited) (continued)

3 Segment analysis

The factors used to identify the group's reporting segments are discussed in the *Annual Report and Accounts 2010*.

Products and services

The group provides a comprehensive range of banking and related financial services to its customers in its geographical regions. The products and services offered to customers are organised by customer group and global business.

– With effect from 1 March 2011 'Personal Financial Services' was renamed 'Retail Banking and Wealth Management'. Retail Banking and Wealth Management offers a broad range of products and services to meet the personal banking need, consumer finance and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance, wealth management and local and international payment services.

– Commercial Banking product offerings include the provision of financing services, payments and cash management, international trade finance, treasury and capital markets, commercial cards, insurance, wealth management and investment banking services.

– Global Banking and Markets provide tailored financial solutions to government, corporate and institutional clients. The client focused business lines deliver a full range of banking capabilities including investment banking and financing solutions; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services and principle investment activities.

– Private Banking provides a range of services to meet the banking, investment and wealth advisory needs of high net worth individuals.

Notes on the Condensed Financial Statements (unaudited) (continued)

Reconciliation of reportable segment profit/(loss) for the period

	For the half-year to 30 June 2011				
	UAE US$000	Qatar US$000	Rest of Middle East US$000	Intra-group items US$000	Total US$000
Net interest income	**339,471**	**58,781**	**137,984**	**–**	**536,236**
Net fee income	**183,052**	**38,524**	**63,293**	**–**	**284,869**
Net trading income	**128,716**	**20,396**	**40,115**	**–**	**189,227**
Net income / (expense) from financial instruments designated at fair value	**(6,443)**	**–**	**–**	**–**	**(6,443)**
Gains less losses from financial investments[1]	**(3,206)**	**41**	**193**	**–**	**(2,972)**
Dividend income	**1,280**	**–**	**84**	**–**	**1,364**
Other operating income	**55,589**	**1,042**	**1,316**	**(42,716)**	**15,231**
Net operating income before loan impairment charges and other credit risk provisions	**698,459**	**118,784**	**242,985**	**(42,716)**	**1,017,512**
Loan impairment charges and other credit risk provisions[1]	**(78,583)**	**(5,107)**	**3,145**	**–**	**(80,545)**
Net operating income	**619,876**	**113,677**	**246,130**	**(42,716)**	**936,967**
Employee compensation and benefits	**(203,180)**	**(26,774)**	**(51,709)**	**–**	**(281,663)**
General and administrative expenses	**(145,625)**	**(24,362)**	**(65,406)**	**42,716**	**(192,677)**
Depreciation and impairment of property, plant and equipment[1]	**(7,754)**	**(1,405)**	**(3,050)**	**–**	**(12,209)**
Amortisation of intangible assets[1]	**(2,845)**	**(19)**	**(47)**	**–**	**(2,911)**
Total operating expenses	**(359,404)**	**(52,560)**	**(120,212)**	**42,716**	**(489,460)**
Operating profit	**260,472**	**61,117**	**125,918**	**–**	**447,507**
Share of profit in associates	**1,012**	**–**	**–**	**–**	**1,012**
Profit before tax	**261,484**	**61,117**	**125,918**	**–**	**448,519**
Tax expense	**(45,365)**	**(7,077)**	**(12,599)**	**–**	**(65,041)**
Profit for the period	**216,119**	**54,040**	**113,319**	**–**	**383,478**

1 *Significant non-cash item.*

Notes on the Condensed Financial Statements (unaudited) (continued)

Reconciliation of reportable segment profit/(loss) for the period (continued)

	For the half-year to 30 June 2010				
	UAE US$000	Qatar US$000	Rest of Middle East US$000	Intra-group items US$000	Total US$000
Net interest income	347,552	77,433	122,141	–	547,126
Net fee income	212,598	37,427	59,640	–	309,665
Net trading income	113,577	14,294	31,161	–	159,032
Gains less losses from financial investments[1]	(356)	–	116	–	(240)
Dividend income	3,954	–	–	–	3,954
Other operating income	(9,771)	132	2,008	(28,015)	(35,646)
Net operating income before loan impairment charges and other credit risk provisions	667,554	129,286	215,066	(28,015)	983,891
Loan impairment charges and other credit risk provisions[1]	(234,164)	(17,028)	(94,874)	–	(346,066)
Net operating income	433,390	112,258	120,192	(28,015)	637,825
Employee compensation and benefits	(174,185)	(22,001)	(44,691)	–	(240,877)
General and administrative expenses	(128,588)	(18,969)	(54,028)	28,015	(173,570)
Depreciation and impairment of property, plant and equipment[1]	(11,581)	(1,090)	(3,040)	–	(15,711)
Amortisation of intangible assets[1]	(3,053)	(26)	(54)	–	(3,133)
Total operating expenses	(317,407)	(42,086)	(101,813)	28,015	(433,291)
Operating profit	115,983	70,172	18,379	–	204,534
Share of profit in associates	8,093	–	–	–	8,093
Profit before tax	124,076	70,172	18,379	–	212,627
Tax expense	(21,530)	(6,778)	(13,710)	–	(42,018)
Profit for the period	102,546	63,394	4,669	–	170,609

1 *Significant non-cash item.*

Notes on the Condensed Financial Statements (unaudited) (continued)

Statement of financial position information

	UAE US$000	Qatar US$000	Rest of Middle East US$000	Intra-group items US$000	Total US$000
Half-year ended 30 June 2011					
Loans and advances to customers (net)	**14,357,976**	**2,094,886**	**5,034,675**	**–**	**21,487,537**
Interest in associates	**32,736**	**–**	**–**	**–**	**32,736**
Total assets	**32,414,689**	**5,117,986**	**11,356,673**	**(2,558,522)**	**46,330,826**
Customer accounts	**18,639,353**	**3,319,483**	**7,710,293**	**–**	**29,669,129**
Total liabilities	**28,081,963**	**5,098,228**	**11,358,064**	**(2,558,522)**	**41,979,733**
Capital expenditure incurred[1]	**6,583**	**386**	**2,716**	**–**	**9,685**
Year ended 31 December 2010					
Loans and advances to customers (net)	13,982,792	1,716,331	4,887,589	–	20,586,712
Interest in associates	29,337	–	–	–	29,337
Total assets	28,440,704	5,509,230	10,601,050	(2,956,561)	41,594,423
Customer accounts	16,376,930	3,068,743	6,898,307	–	26,343,980
Total liabilities	24,521,133	5,504,587	10,596,666	(2,956,561)	37,665,825
Capital expenditure incurred[1]	21,846	5,405	4,236	–	31,487

1 *Expenditure incurred on property, plant and equipment and other intangible assets. Excludes assets acquired as part of business combination and goodwill, if any.*

Net operating income by customer group and global business

	Retail Banking and Wealth Management US$000	Commercial Banking US$000	Global Banking and Markets US$000	Private Banking US$000	Other US$000	Inter Segment US$000	Total US$000
Half-year ended 30 June 2011							
Net operating income:	**258,751**	**337,582**	**334,485**	**13,194**	**35,671**	**(42,716)**	**936,967**
External	**178,754**	**402,706**	**391,553**	**7,773**	**(43,819)**	**–**	**936,967**
Inter-segment	**79,997**	**(65,124)**	**(57,068)**	**5,421**	**79,490**	**(42,716)**	**–**
Half-year ended 30 June 2010							
Net operating income:	233,627	275,976	131,053	9,741	15,443	(28,015)	637,825
External	169,456	326,094	160,679	6,374	(24,778)	–	637,825
Inter-segment	64,171	(50,118)	(29,626)	3,367	40,221	(28,015)	–

Notes on the Condensed Financial Statements (unaudited) (continued)

4 Concentration of loans and advances

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
At 30 June 2011	**Total US$000**	**As a % of total gross loans %**
Personal		
Residential mortgages	**1,788,351**	**7.82**
Other personal	**2,980,352**	**13.03**
	4,768,703	**20.85**
Corporate and commercial		
Commercial, industrial and international trade	**10,168,367**	**44.45**
Commercial real estate	**987,623**	**4.32**
Other property-related	**1,811,416**	**7.92**
Government	**1,100,815**	**4.81**
Other commercial	**2,920,494**	**12.77**
	16,988,715	**74.27**
Financial		
Non-bank financial institutions	**1,102,960**	**4.82**
Settlement accounts	**13,696**	**0.06**
	1,116,656	**4.88**
Total gross loans and advances	**22,874,074**	**100.00**
Impaired loans		
- as a percentage of gross loans and advances to customers	**8.72%**	
Total impairment allowances		
- as a percentage of gross loans and advances to customers	**6.06%**	
At 31 December 2010		
Personal		
Residential mortgages	1,748,385	7.93
Other personal	3,208,214	14.55
	4,956,599	22.48
Corporate and commercial		
Commercial, industrial and international trade	9,265,264	42.01
Commercial real estate	1,039,723	4.71
Other property-related	1,709,730	7.75
Government	1,154,751	5.24
Other commercial	2,731,875	12.39
	15,901,343	72.10
Financial		
Non-bank financial institutions	1,189,390	5.39
Settlement accounts	5,778	0.03
	1,195,168	5.42
Total gross loans and advances	22,053,110	100.00
Impaired loans		
- as a percentage of gross loans and advances to customers	9.74%	
Total impairment allowances		
- as a percentage of gross loans and advances to customers	6.65%	

There are no special collateral requirements relating to industrial concentrations, with the exception of exposures to the property sector. The majority of exposures to the property and construction industry and the residential mortgage market are secured on the underlying property.

Notes on the Condensed Financial Statements (unaudited) (continued)

5 Loan impairment charges and other credit risk provisions

	Half-year to	
	30 June 2011	30 June 2010
	US$000	US$000
Total loans and advances		
– new allowances net of allowance releases	**121,343**	372,379
– recoveries of amounts previously written off	**(40,704)**	(28,488)
	80,639	343,891
Impairment charges on debt securities and other credit risk provisions	**(94)**	2,175
	80,545	346,066

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

	Banks	Customers		
	Individually assessed	**Individually assessed**	**Collectively assessed**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
At 1 January 2011	**17,029**	**996,803**	**469,595**	**1,483,427**
Amounts written off	**(25)**	**(2,833)**	**(97,998)**	**(100,856)**
Recoveries of loans and advances written off in previous years	**–**	**11,103**	**29,601**	**40,704**
Charge to income statement	**–**	**49,817**	**30,822**	**80,639**
Exchange and other movements[1]	**–**	**(100,381)**	**8**	**(100,373)**
At 30 June 2011	**17,004**	**954,509**	**432,028**	**1,403,541**
At 1 January 2010	15,025	611,167	670,975	1,297,167
Amounts written off	–	(5,826)	(243,908)	(249,734)
Recoveries of loans and advances written off in previous years	–	4,648	23,840	28,488
Charge to income statement	1,999	162,698	179,194	343,891
Exchange and other movements	1	(969)	(20)	(988)
At 30 June 2010	17,025	771,718	630,081	1,418,824

1 *This includes USD95m of provision reclassified on derecognition of a loan following a restructuring.*

6 Credit quality of financial instruments

The five credit quality classifications set out and defined in the *Annual Report and Accounts 2010* 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.

Notes on the Condensed Financial Statements (unaudited) (continued)

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

	30 June 2011							
	Neither past due nor impaired							
		Medium						
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Impairment allowances	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cash and balances at central banks	**1,154,465**	**–**	**69,471**	**–**	**–**	**–**	**–**	**1,223,936**
Items in the course of collection from other banks	**6,818**	**8,494**	**43,656**	**7**	**–**	**–**	**–**	**58,975**
Trading assets	**458,152**	**76,656**	**202,774**	**24,878**	**–**	**–**	**–**	**762,460**
– treasury and other eligible bills	**87,613**	**–**	**9,136**	**–**	**–**	**–**	**–**	**96,749**
– debt securities	**354,758**	**76,656**	**193,638**	**24,878**	**–**	**–**	**–**	**649,930**
– loans and advances to customers	**15,781**	**–**	**–**	**–**	**–**	**–**	**–**	**15,781**
Derivatives	**133,013**	**435,958**	**509,911**	**422**	**–**	**–**	**–**	**1,079,304**
Loans and advances held at amortised cost	**12,709,778**	**6,706,949**	**6,303,013**	**2,243,920**	**1,297,865**	**2,015,058**	**(1,403,541)**	**29,873,042**
– loans and advances to banks	**7,114,737**	**390,236**	**585,768**	**291,768**	**–**	**20,000**	**(17,004)**	**8,385,505**
– loans and advances to customers	**5,595,041**	**6,316,713**	**5,717,245**	**1,952,152**	**1,297,865**	**1,995,058**	**(1,386,537)**	**21,487,537**
Financial investments	**3,592,276**	**–**	**7,588,947**	**134,611**	**–**	**–**	**–**	**11,315,834**
– treasury and other similar bills	**791,340**	**–**	**203,711**	**5,301**	**–**	**–**	**–**	**1,000,352**
– debt securities	**2,800,936**	**–**	**7,385,236**	**129,310**	**–**	**–**	**–**	**10,315,482**
Other assets	**76,356**	**241,027**	**806,278**	**93,622**	**12,801**	**5,928**	**–**	**1,236,012**
– endorsements and acceptances	**75,797**	**241,027**	**598,386**	**93,622**	**12,801**	**5,928**	**–**	**1,027,561**
– accrued income and other	**559**	**–**	**207,892**	**–**	**–**	**–**	**–**	**208,451**

Notes on the Condensed Financial Statements (unaudited) (continued)

	31 December 2010							
	Neither past due nor impaired							
			Medium		Past due			
	Strong	Good	Satisfactory	Sub-standard	not impaired	Impaired	Impairment allowances	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cash and balances at central banks	719,363	–	–	–	–	–	–	719,363
Items in the course of collection from other banks	6,834	4,127	50,124	–	–	–	–	61,085
Trading assets	192,159	74,378	232,957	12,021	–	–	–	511,515
– treasury and other eligible bills	–	–	45,494	–	–	–	–	45,494
– debt securities	178,154	74,378	187,463	12,021	–	–	–	452,016
– loans and advances to customers	14,005	–	–	–	–	–	–	14,005
Derivatives	118,811	368,061	339,317	389	–	–	–	826,578
Loans and advances held at amortised cost	13,187,072	5,221,814	6,312,608	2,072,218	1,337,386	2,168,813	(1,483,427)	28,816,484
– loans and advances to banks	7,432,054	179,408	161,281	454,033	–	20,025	(17,029)	8,229,772
– loans and advances to customers	5,755,018	5,042,406	6,151,327	1,618,185	1,337,386	2,148,788	(1,466,398)	20,586,712
Financial investments	2,742,356	–	5,272,662	534,056	–	–	–	8,549,074
– treasury and other similar bills	150,107	–	67,166	66,514	–	–	–	283,787
– debt securities	2,592,249	–	5,205,496	467,542	–	–	–	8,265,287
Other assets	93,086	207,887	968,438	145,335	957	722	–	1,416,425
– endorsements and acceptances	88,549	207,887	758,043	145,335	957	725	–	1,201,496
– accrued income and other	4,537	–	210,395	–	–	(3)	–	214,929

7 Assets held for sale

	30 June 2011	31 December 2010
	US$000	US$000
Disposal group	**303,229**	–
Non-current assets held for sale		
- property, plant and equipment	**237**	3,077
Total assets held for sale	**303,466**	3,077

Disposal group

At 30 June 2011, the disposal group related to sale of a majority interest in the private equity fund management business to the unit's senior management team. The transaction is expected to complete in the second half of 2011. Associated liabilities of US$29.9million are included in 'Other Liabilities'.

Property, plant and equipment

The property, plant and equipment classified as held for sale is a result of repossession of property and motor vehicles that had been pledged as collateral by customers. No fair value is calculated for repossessed properties.

Notes on the Condensed Financial Statements (unaudited) (continued)

Repossessed motor vehicles are held at fair value. Gains and losses recognised on impairment of these assets to fair value are reported in 'Loan impairment charges'.

8 Financial liabilities designated at fair value

	30 June 2011	31 December 2010
	US$000	US$000
Debt securities in issue	**508,696**	–

At 30 June 2011, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of US$4.1 million.

9 Debt securities in issue

	30 June 2011		31 December 2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	US$000	**US$000**	US$000	US$000
Medium term notes	**5,372,188**	**5,372,523**	4,393,001	4,327,379
Non-equity preference shares	**1,350,000**	**1,379,854**	1,350,000	1,337,592
	6,722,188	**6,752,377**	5,743,001	5,664,971
Of which debt securities in issue reported as				
trading liabilities	**(433,527)**	**(433,527)**	(54,456)	(54,456)
financial liabilities designated at fair value (Note 8)	**(508,696)**	**(508,696)**	–-	–-
	5,779,965	**5,810,154**	5,688,545	5,610,515

10 Fair values of financial instruments

Fair values are determined in accordance with the methodology set out in the *Annual Report and Accounts 2010* in the accounting policies and in Note 23.

Bases of valuing financial assets and liabilities measured at fair value

		Valuation techniques		
	Quoted market price Level 1	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
At 30 June 2011				
Assets				
Trading assets	**61,032**	**626,988**	**74,440**	**762,460**
Derivatives	**–**	**1,073,331**	**5,973**	**1,079,304**
Financial investments: available-for-sale	**207,918**	**10,689,462**	**539,625**	**11,437,005**
Liabilities				
Trading liabilities	**–**	**521,569**	**–**	**521,569**
Financial liabilities designated at fair value	**508,696**	**–**	**–**	**508,696**
Derivatives	**–**	**1,051,941**	**8,444**	**1,060,385**
At 31 December 2010				
Assets				
Trading assets	86,160	441,939	190,577	718,676
Derivatives	–	824,123	2,455	826,578
Financial investments: available-for-sale	80,517	8,074,059	513,145	8,667,721
Liabilities				
Trading liabilities	–	121,733	–	121,733
Financial liabilities designated at fair value	–	–	–	–
Derivatives	–	824,269	10,537	834,806

Notes on the Condensed Financial Statements (unaudited) (continued)

Fair values of financial instruments not carried at fair value

	30 June 2011		31 December 2010	
	Carrying amount	**Fair Value**	Carrying amount	Fair Value
	US$000	**US$000**	US$000	US$000
Assets				
Loans and advances to banks	**8,385,505**	**8,390,419**	8,229,772	8,234,817
Loans and advances to customers	**21,487,537**	**21,718,436**	20,586,712	20,649,254
Liabilities				
Deposits by banks	**1,536,151**	**1,519,168**	1,547,700	1,524,829
Customer accounts	**29,669,129**	**29,694,849**	26,343,980	26,389,478
Debt securities in issue	**5,779,965**	**5,795,791**	5,688,545	5,610,515

11 Contingent liabilities, contractual commitments and guarantees

	At 30 June 2011	At 31 December 2010
	US$000	US$000
Guarantees and other contingent liabilities		
Guarantees and irrevocable letters of credit pledged as collateral security	**11,423,065**	11,328,404
	11,423,065	11,328,404
Commitments		
Documentary credits and short-term trade-related transactions	**1,600,125**	1,313,334
Undrawn formal standby facilities, credit lines and other commitments to lend	**15,189,187**	15,193,523
	16,789,312	16,506,857

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees. They are mainly credit-related instruments which include both financial and non financial guarantees and commitments to extend credit. Contingent liabilities arising from litigation are disclosed in Note 12. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments is expected to expire without being drawn upon, the total of the 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 & Accounts 2010*.

12 Litigation

The group, through a number of its branches, is named in and is defending legal actions in various jurisdictions arising from its normal business. No material adverse impact on the financial position of the group is expected to arise from these proceedings.

13 Interim Report 2010 and statutory accounts

The information in this Interim Report 2011 is unaudited and does not constitute statutory accounts within the meaning of Article 105(1) of the Companies (Jersey) 1991, as amended. The Interim Report 2011 was approved by the Board of Directors on 5 August 2011. The statutory accounts for the year ended 31 December 2010 have been delivered to the Registrar of Companies in Jersey in accordance with Article 108 of the Companies (Jersey) 1991, as amended. The auditor has reported on those accounts. Its report was (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; (iii) and did not contain a statement under Article 113B(3) of the Companies (Jersey) 1991, as amended.

Independent Review Report by KPMG Channel Islands Limited to HSBC Bank Middle East Limited

Introduction

We have been engaged by the company to review the condensed consolidated financial statements in the interim report for the six months ended 30 June 2011 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related explanatory notes.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. As disclosed in note 1, the annual consolidated financial statements of the group are prepared in accordance with International Financial Reporting Standards as endorsed by the EU. The condensed consolidated set of interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated set of financial statements in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, 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 (UK and Ireland) 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 condensed consolidated set of financial statements in the interim report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU.

Laurence Catterson
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants
5 St Andrew’s Place
St Helier
Jersey
JE4 8WQ

August 2011

Independent Review Report by KPMG Channel Islands Limited to HSBC Bank Middle East Limited (continued)

Notes:

- The maintenance and integrity of the HSBC Bank Middle East Limited and/ or other HSBC Group websites is the responsibility of the directors; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Channel Islands Limited accepts no responsibility for any changes that may have occurred to the condensed consolidated financial statements or our review report since August 2011 KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to August 2011 which in any way extends this date.

- Legislation in Jersey governing the preparation and dissemination of condensed consolidated financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the condensed consolidated financial statements are complete and unaltered in any way.