HSBC Bank Middle East Limited

Interim Financial Statements

30 June 2012

Interim Financial Statements 2012

Contents

Presentation of Information

This document comprises the Interim Financial Statements 2012 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 2012

	Notes	Half-year to 30 June 2012 US$000	30 June 2011 US$000
Interest income		**693,145**	742,149
Interest expense		**(167,521)**	(205,913)
Net interest income		**525,624**	536,236
Fee income		**294,778**	321,593
Fee expense		**(36,636)**	(36,724)
Net fee income		**258,142**	284,869
Trading income excluding net interest income		**172,866**	176,279
Net interest income on trading activities		**1,322**	12,948
Net trading income.		**174,188**	189,227
Net expense from financial instruments designated at fair value		**(4,361)**	(6,443)
Gains less losses from financial investments		**4,603**	(2,972)
Dividend income		**2,927**	1,364
Other operating income		**28,423**	15,231
Net operating income before loan impairment charges and other credit risk provisions		**989,546**	1,017,512
Loan impairment charges and other credit risk provisions	*5*	**(106,721)**	(80,545)
Net operating income		**882,825**	936,967
Employee compensation and benefits		**(262,686)**	(281,663)
General and administrative expenses		**(169,952)**	(192,677)
Depreciation and impairment of property, plant and equipment		**(10,771)**	(12,209)
Amortisation and impairment of intangible assets		**(3,290)**	(2,911)
Total operating expenses		**(446,699)**	(489,460)
Operating profit		**436,126**	447,507
Share of (loss)/profit in associates		**(4,183)**	1,012
Profit before tax		**431,943**	448,519
Tax expense		**(62,474)**	(65,041)
Profit for the period		**369,469**	383,478
Profit attributable to shareholders of the parent company		**342,423**	373,012
Profit attributable to non-controlling interests		**27,046**	10,466

The accompanying notes on pages 8 to 21 form an integral part of these condensed financial statements.

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of comprehensive income for the half-year to 30 June 2012

	Half-year to	
	30 June 2012 US$000	30 June 2011 US$000
Profit for the period	**369,469**	383,478
Other comprehensive income		
Available for sale investments:	**2,373**	5,827
– fair value gains	**6,593**	10,612
– fair value gains transferred to income statement on disposal	**(4,530)**	(3,326)
– amounts transferred to the income statement in respect of impairment losses	**–**	210
– income taxes	**310**	(1,669)
Cash flow hedges:	**4,155**	8,941
– fair value gains	**3,000**	8,425
– fair value losses transferred to income statement	**2,193**	2,751
– income taxes	**(1,038)**	(2,235)
Actuarial losses on defined benefit plans:	**–**	(6,437)
– before income taxes	**–**	(10,403)
– income taxes	**–**	3,966
Exchange differences and other	**(8,603)**	6,886
Other comprehensive income for the period, net of tax	**(2,075)**	15,217
Total comprehensive income for the period	**367,394**	398,695
Total comprehensive income for the period attributable to:		
– shareholders of the parent company	**340,358**	388,223
– non-controlling interests	**27,036**	10,472
	367,394	398,695

The accompanying notes on pages 8 to 21 form an integral part of these condensed financial statements.

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of financial position at 30 June 2012

	Notes	**At 30 June 2012 US$000**	At 31 December 2011 US$000
ASSETS			
Cash and balances at central banks		**851,779**	916,324
Items in the course of collection from other banks		**68,485**	84,478
Trading assets	*11*	**910,813**	855,781
Derivatives	*11*	**1,374,583**	1,269,988
Loans and advances to banks	*11*	**9,755,881**	8,076,477
Loans and advances to customers	*11*	**23,496,936**	21,560,861
Financial investments	*11*	**10,869,509**	10,329,413
Assets held for sale	*8*	**321,264**	302,160
Other assets		**2,027,259**	1,405,119
Current tax assets		**1,618**	754
Prepayments and accrued income		**195,342**	178,003
Interests in associates		**30,614**	35,189
Intangible assets		**53,581**	12,375
Property, plant and equipment		**176,707**	105,003
Deferred tax assets		**206,036**	173,719
Total assets		**50,340,407**	45,305,644
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	*11*	**2,074,738**	2,080,192
Customer accounts	*11*	**31,608,376**	28,826,332
Items in the course of transmission to other banks		**285,399**	289,995
Trading liabilities	*11*	**1,155,484**	757,274
Financial liabilities designated at fair value	*9, 11*	**501,546**	507,830
Derivatives	*11*	**1,334,786**	1,231,232
Debt securities in issue	*10, 11*	**4,791,614**	4,398,163
Liabilities of disposal groups held for sale	*8*	**20,739**	51,554
Other liabilities		**2,874,473**	2,189,980
Current tax liabilities		**129,330**	164,499
Accruals and deferred income		**204,323**	176,480
Provisions		**23,404**	19,877
Deferred tax liabilities		**7,430**	5,973
Retirement benefit liabilities		**75,154**	75,790
Total liabilities		**45,086,796**	40,775,171
Equity			
Called up share capital		**931,055**	931,055
Other reserves		**48,550**	48,535
Retained earnings		**3,521,751**	3,175,496
Total equity attributable to the shareholders of the parent company		**4,501,356**	4,155,086
Non-controlling interests		**752,255**	375,387
Total equity		**5,253,611**	4,530,473
Total equity and liabilities		**50,340,407**	45,305,644

The accompanying notes on pages 8 to 21 form an integral part of these condensed financial statements.

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 2012

	Half-year to	
	30 June 2012 US$000	30 June 2011 US$000
Cash flows from operating activities		
Profit before tax	**431,943**	448,519
Adjustments for:		
– non-cash items included in profit before tax	**153,992**	133,905
– change in operating assets	**(1,262,127)**	(1,396,036)
– change in operating liabilities	**968,369**	3,694,548
– elimination of exchange differences[1]	**(33,031)**	(99,255)
– net loss from investing activities	**(4,479)**	(1,767)
– share of losses/(profits) in associates	**4,183**	(1,012)
– distributions from associates	**391**	1,102
– contributions paid to defined benefit pension plans	**(108)**	(6,479)
– tax paid	**(118,165)**	(56,364)
Net cash generated from operating activities	**140,968**	2,717,161
Cash flows used in investing activities		
Purchase of financial investments	**(6,985,045)**	(4,759,590)
Proceeds from the sale and maturity of financial investments	**4,795,668**	1,530,244
Purchase of property, plant and equipment	**(5,059)**	(7,216)
Proceeds from the sale of property, plant and equipment	**4,009**	3,387
Purchase of intangible assets	**(2,444)**	(2,469)
Net cash inflow from acquisition of subsidiary	**626,657**	-
Net cash used in investing activities	**(1,566,214)**	(3,235,644)
Cash flows from financing activities		
Non equity preference share capital redeemed	**(100,000)**	-
Dividends paid to non-controlling interests	**(7)**	(15,503)
Net cash used in financing activities	**(100,007)**	(15,503)
Net decrease in cash and cash equivalents	**(1,525,253)**	(533,986)
Cash and cash equivalents at the beginning of the period	**10,698,851**	10,983,043
Exchange differences in respect of cash and cash equivalents	**38,907**	53,383
Cash and cash equivalents at the end of the period	**9,212,505**	10,502,440

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 21 form an integral part of these condensed financial statements.

Consolidated statement of changes in equity for the half-year to 30 June 2012

	Half-year to 30 June 2012									
			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**	**3,175,496**	**56,325**	**5,229**	**(9,429)**	**11,762**	**(15,352)**	**4,155,086**	**375,387**	**4,530,473**
Profit for the period	**–**	**342,423**	**–**	**–**	**–**	**–**	**–**	**342,423**	**27,046**	**369,469**
Other comprehensive income (net of tax)	**–**	**56**	**2,370**	**4,155**	**(8,642)**	**(4)**	**–**	**(2,065)**	**(10)**	**(2,075)**
Available-for-sale investments	**–**	**–**	**2,373**	**–**	**–**	**–**	**–**	**2,373**	**–**	**2,373**
Cash flow hedges	**–**	**–**	**–**	**4,155**	**–**	**–**	**–**	**4,155**	**–**	**4,155**
Actuarial losses on defined benefit plans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exchange differences and other	**–**	**56**	**(3)**	**–**	**(8,642)**	**(4)**	**–**	**(8,593)**	**(10)**	**(8,603)**
Total comprehensive income for the period	**–**	**342,479**	**2,370**	**4,155**	**(8,642)**	**(4)**	**–**	**340,358**	**27,036**	**367,394**
Dividends to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Cost of share-based payment arrangements	**–**	**–**	**–**	**–**	**–**	**1,393**	**–**	**1,393**	**–**	**1,393**
Other movements	**–**	**3,776**	**–**	**–**	**–**	**743**	**–**	**4,519**	**1,556**	**6,075**
Acquisition of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**377,071**	**377,071**
Changes in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(28,788)**	**(28,788)**
At 30 June	**931,055**	**3,521,751**	**58,695**	**9,384**	**(18,071)**	**13,894**	**(15,352)**	**4,501,356**	**752,255**	**5,253,611**

The accompanying notes on pages 8 to 21 form an integral part of these condensed financial statements.

	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)
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

The accompanying notes on pages 8 to 21 form an integral part of these condensed financial statements.

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 2011 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 2011, there were no unendorsed standards effective for the year ended 31 December 2011 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 2011 were prepared in accordance with IFRSs as issued by the IASB.

At 30 June 2012, there were no unendorsed standards effective for the period ended 30 June 2012 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 2012, 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 2011*.

(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 2011*.

(f) Future accounting developments

At 30 June 2012, a number of standards and amendments to standards had been issued by the IASB, which are not effective for these consolidated financial statements. These new requirements have not yet been endorsed for use in the EU. In addition to the projects to complete financial instrument accounting, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting, which together with the standards described below, will represent widespread and significant changes to accounting requirements from 2013.

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

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

Standards applicable in 2013

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements' ('IFRS 10'), IFRS 11 'Joint Arrangements' ('IFRS 11') and IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are required 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 the investors' rights and obligations than on structure of the arrangement, 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.

Based on the group's assessment to date, we do not expect IFRS 10 and IFRS 11 to have a material effect on the group's financial statements.

In May 2011, the IASB also issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). This 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 IFRS 13 and it is not practicable to quantify the effect as at the date of the publication of these interim consolidated financial statements, which will depend on final interpretations of the standard, market conditions and the group's holdings of financial instruments at 1 January 2013.

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). The revised standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The group is currently assessing IAS 19 and it is not practical to quantify the effect as at the date of the publication of these interim consolidated financial statements.

In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively.

Standards applicable in 2014

In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively.

The group is currently assessing the impact of these clarifications but it is not practicable to quantify the effect as at the date of the publication of these interim consolidated financial statements.

Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the

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

IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting.

The IASB re-opened the requirements for classification and measurement in IFRS 9 in 2012 to address practice and other issues with an exposure draft of revised proposals expected in the second half of 2012. Therefore, the group remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the effect of IFRS 9 as at the date of the publication of these interim consolidated financial statements.

(g) Changes in composition of the group

On 3 June 2012, the group merged the operations of HSBC Bank Middle East Limited Oman branches with Oman International Bank S.A.O.G ('OIB'), an Omani joint stock company listed on the Muscat Securities Market and operating as a commercial bank in the Sultanate of Oman. Following the merger, the group acquired 51% of the combined entity (note 7).

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 2011*, 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 2011.*

3 Segment analysis

The factors used to identify the group's reporting segment are discussed in the *Annual Report and Accounts 2011*.

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.

- 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 principal 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 for the period

	For the half-year to 30 June 2012				
	UAE US$000	Qatar US$000	Rest of Middle East US$000	Intra-group items US$000	Total US$000
Net interest income	333,128	50,761	141,735	–	525,624
Net fee income	161,527	31,657	64,958	–	258,142
Net trading income	110,019	22,491	41,678	–	174,188
Net income from financial instruments designated at fair value	(4,361)	–	–	–	(4,361)
Gains less losses from financial investments[1]	4,603	–	–	–	4,603
Dividend income	2,828	–	99	–	2,927
Other operating income	58,911	2,796	5,104	(38,388)	28,423
Net operating income before loan impairment charges and other credit risk provisions	666,655	107,705	253,574	(38,388)	989,546
Loan impairment charges and other credit risk provisions[1]	(50,022)	512	(57,211)	–	(106,721)
Net operating income	616,633	108,217	196,363	(38,388)	882,825
Employee compensation and benefits	(194,935)	(18,345)	(49,406)	–	(262,686)
General and administrative expenses	(115,474)	(23,309)	(69,557)	38,388	(169,952)
Depreciation and impairment of property, plant and equipment[1]	(6,807)	(1,295)	(2,669)	–	(10,771)
Amortisation of intangible assets[1]	(2,473)	(56)	(761)	–	(3,290)
Total operating expenses	(319,689)	(43,005)	(122,393)	38,388	(446,699)
Operating profit	296,944	65,212	73,970	–	436,126
Share of profit in associates	(4,183)	–	–	–	(4,183)
Profit before tax	292,761	65,212	73,970	–	431,943
Tax expense	(41,667)	(6,782)	(14,025)	–	(62,474)
Profit for the period	251,094	58,430	59,945	–	369,469

1 *Significant non-cash item.*

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

Reconciliation of reportable segment profit for the period (continued)

	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 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)

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 2012					
Loans and advances to customers (net)	**14,448,800**	**2,026,387**	**7,021,749**	**–**	**23,496,936**
Interest in associates	**30,614**	**–**	**–**	**–**	**30,614**
Total assets	**32,505,167**	**5,318,843**	**15,785,318**	**(3,268,921)**	**50,340,407**
Customer accounts	**17,772,044**	**3,030,612**	**10,805,720**	**–**	**31,608,376**
Total liabilities	**28,051,245**	**5,294,965**	**15,009,507**	**(3,268,921)**	**45,086,796**
Year ended 31 December 2011					
Loans and advances to customers (net)	14,923,744	1,787,881	4,849,236	–	21,560,861
Interest in associates	35,189	–	–	–	35,189
Total assets	31,738,840	5,078,987	11,637,478	(3,149,661)	45,305,644
Customer accounts	18,192,687	2,795,789	7,837,856	–	28,826,332
Total liabilities	27,231,744	5,057,028	11,636,060	(3,149,661)	40,775,171

Net operating income by 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 2012							
Net operating income:	**269,209**	**352,690**	**251,074**	**4,743**	**43,497**	**(38,388)**	**882,825**
External	**210,717**	**409,080**	**294,022**	**503**	**(31,497)**	**–**	**882,825**
Inter-segment	**58,492**	**(56,390)**	**(42,948)**	**4,240**	**74,994**	**(38,388)**	**–**
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)	–

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	
	Total	As a % of total gross loans
At 30 June 2012	**US$000**	**%**
Personal		
Residential mortgages	**1,934,386**	**7.72**
Other personal	**3,612,916**	**14.42**
	5,547,302	**22.14**
Corporate and commercial		
Commercial, industrial and international trade	**10,148,954**	**40.51**
Commercial real estate	**878,632**	**3.51**
Other property-related	**2,020,495**	**8.06**
Government	**1,339,069**	**5.34**
Other commercial	**3,832,038**	**15.29**
	18,219,188	**72.71**
Financial		
Non-bank financial institutions	**1,289,501**	**5.15**
Settlement accounts	**1**	**0.00**
	1,289,502	**5.15**
Total gross loans and advances	**25,055,992**	**100.00**
Impaired loans		
- as a percentage of gross loans and advances to customers	**9.22%**	
Total impairment allowances		
- as a percentage of gross loans and advances to customers	**6.22%**	
At 31 December 2011		
Personal		
Residential mortgages	1,834,334	7.95
Other personal	2,968,359	12.87
	4,802,703	20.82
Corporate and commercial		
Commercial, industrial and international trade	9,984,165	43.28
Commercial real estate	941,561	4.08
Other property-related	1,730,276	7.50
Government	1,380,671	5.98
Other commercial	3,207,907	13.90
	17,244,580	74.74
Financial		
Non-bank financial institutions	1,018,996	4.42
Settlement accounts	4,458	0.02
	1,023,454	4.44
Total gross loans and advances	23,070,737	100.00
Impaired loans		
- as a percentage of gross loans and advances to customers	9.62%	
Total impairment allowances		
- as a percentage of gross loans and advances to customers	6.55%	

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 2012	30 June 2011
	US$000	US$000
Total loans and advances		
– new allowances net of allowance releases	**147,445**	121,343
– recoveries of amounts previously written off	**(40,818)**	(40,704)
	106,627	80,639
Impairment charges on debt securities and other credit risk provisions	**94**	(94)
	106,721	80,545

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 2012	**17,004**	**1,102,244**	**407,627**	**1,526,875**
Amounts written off	**–**	**(38,506)**	**(61,500)**	**(100,006)**
Recoveries of loans and advances written off in previous years	**–**	**17,136**	**23,682**	**40,818**
Charge to income statement	**364**	**81,440**	**24,823**	**106,627**
Exchange and other movements	**4**	**2,882**	**(772)**	**2,114**
At 30 June 2012	**17,372**	**1,165,196**	**393,860**	**1,576,428**
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

1 *This includes US$95m 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 2011* 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 2012							
	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	**529,404**	**261,668**	**60,707**	**–**	**–**	**–**	**–**	**851,779**
Items in the course of collection from other banks	**5,392**	**18,511**	**44,578**	**4**	**–**	**–**	**–**	**68,485**
Trading assets	**472,089**	**45,679**	**386,609**	**6,436**	**–**	**–**	**–**	**910,813**
– treasury and other eligible bills	**13,712**	**–**	**1,837**	**–**	**–**	**–**	**–**	**15,549**
– debt securities	**256,873**	**45,679**	**166,787**	**6,436**	**–**	**–**	**–**	**475,775**
– loans and advances to banks	**184,404**	**–**	**200,476**	**–**	**–**	**–**	**–**	**384,880**
– loans and advances to customers	**17,100**	**–**	**17,509**	**–**	**–**	**–**	**–**	**34,609**
Derivatives	**163,092**	**117,378**	**911,371**	**182,742**	**–**	**–**	**–**	**1,374,583**
Loans and advances held at amortised cost	**14,243,775**	**7,745,156**	**8,104,906**	**1,442,755**	**954,159**	**2,338,494**	**(1,576,428)**	**33,252,817**
– loans and advances to banks	**7,794,590**	**917,399**	**979,506**	**54,406**	**–**	**27,352**	**(17,372)**	**9,755,881**
– loans and advances to customers	**6,449,185**	**6,827,757**	**7,125,400**	**1,388,349**	**954,159**	**2,311,142**	**(1,559,056)**	**23,496,936**
Financial investments	**3,045,251**	**615,336**	**6,822,480**	**192,629**	**–**	**–**	**–**	**10,675,696**
– treasury and other similar bills	**914,993**	**379,879**	**366,044**	**98,358**	**–**	**–**	**–**	**1,759,274**
– debt securities	**2,130,258**	**235,457**	**6,456,436**	**94,271**	**–**	**–**	**–**	**8,916,422**
Other assets	**245,711**	**218,118**	**1,175,935**	**510,804**	**3,398**	**4,207**	**–**	**2,158,173**
– endorsements and acceptances	**236,523**	**218,118**	**907,039**	**510,804**	**3,398**	**4,207**	**–**	**1,880,089**
– accrued income and other	**9,188**	**–**	**268,896**	**–**	**–**	**–**	**–**	**278,084**

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

	31 December 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	850,050	–	66,274	–	–	–	–	916,324
Items in the course of collection from other banks	4,482	33,713	46,283	–	–	–	–	84,478
Trading assets	428,467	59,459	344,291	23,564	–	–	–	855,781
– treasury and other eligible bills	34,153	–	3,628	–	–	–	–	37,781
– debt securities	377,879	59,459	140,685	23,564	–	–	–	601,587
– loans and advances to banks	–	–	199,978	–	–	–	–	199,978
– loans and advances to customers	16,435	–	–	–	–	–	–	16,435
Derivatives	115,654	55,031	894,326	204,977	–	–	–	1,269,988
Loans and advances held at amortised cost	12,693,112	6,203,738	7,347,862	1,534,346	1,144,691	2,240,464	(1,526,875)	29,637,338
– loans and advances to banks	6,499,638	829,637	688,160	56,046	–	20,000	(17,004)	8,076,477
– loans and advances to customers	6,193,474	5,374,101	6,659,702	1,478,300	1,144,691	2,220,464	(1,509,871)	21,560,861
Financial investments	2,747,258	581,746	6,691,588	170,230	–	–	–	10,190,822
– treasury and other similar bills	1,140,920	345,368	245,706	61,488	–	–	–	1,793,482
– debt securities	1,606,338	236,378	6,445,882	108,742	–	–	–	8,397,340
Other assets	77,889	242,094	1,102,065	127,902	9,309	2,053	–	1,561,312
– endorsements and acceptances	70,932	242,094	858,819	127,902	9,309	2,053	–	1,311,109
– accrued income and other	6,957	–	243,246	–	–	–	–	250,203

7 Investment in subsidiaries

On 3 June 2012, the group merged the operations of HSBC Bank Middle East Limited Oman branches with Oman International Bank S.A.O.G (‘OIB’), an Omani joint stock company listed on the Muscat Securities Market and operating as a commercial bank in the Sultanate of Oman. Following the merger, the group acquired 51% of the combined entity for a total consideration of US$201.2m.

Negative goodwill of US$3.2m arose from this acquisition and is recognised in other operating income.

The group has elected to measure the non-controlling interest in the acquiree at the present ownership instruments’ proportionate share in the recognised amounts of the acquiree’s identifiable net assets.

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

The following table summarises the consideration transferred to acquire OIB:

	Acquisition date US$000
Consideration	
Net assets of HSBC Bank Middle East Limited – Oman branch	201,249
Total consideration transferred	201,249

The consideration transferred is 49% of the fair value of HBME Oman branch. Effectively, 49% of the branch is disposed to non-controlling interests at fair value in exchange for shares in OIB. The difference between the fair value and book value of the branch resulted in a gain of US$17.5m which is recognised directly in equity.

The fair values of identifiable assets acquired and the liabilities assumed as at the acquisition date were as follows:

	Fair value recognised on acquisition US$000	**Carrying value immediately prior to acquisition** US$000
Assets		
Cash and balances at central banks	281,413	281,413
Derivatives	5,060	5,060
Loans and advances to banks	452,441	452,441
Loans and advances to customers	1,780,178	1,825,816
Financial investments	451,888	451,888
Other assets	313,270	313,566
Prepayments and accrued income	2,909	2,909
Intangible assets – core deposit intangible	31,964	-
Intangible assets – customer relationships	9,587	-
Property, plant and equipment	81,572	96,203
Deferred tax assets	10,047	2,468
Liabilities		
Deposits by banks	(55,275)	(55,275)
Customer accounts	(2,634,945)	(2,637,803)
Items in the course of transmission to other banks	(11,738)	(11,738)
Derivatives	(6,084)	(629)
Other liabilities	(301,504)	(301,504)
Current tax liabilities	(1,462)	(1,462)
Accruals and deferred income	(11,501)	(11,501)
Total identifiable net assets	397,820	
Non-controlling interest	(193,357)	
Negative goodwill arising on acquisition	(3,214)	
Total consideration transferred	201,249	

The fair value of the loans and advances to customers amounts to US$1,780m. The gross amount of loans and advances to customers is US$2,061m, of which US$235m is expected to be uncollectable.

Transaction costs of US$4.5m have been expensed and are included in general and administrative expenses.

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

8 Assets held for sale

	30 June 2012 US$000	31 December 2011 US$000
Disposal group	**321,027**	301,923
Non-current assets held for sale		
- property, plant and equipment	**237**	237
Total assets held for sale	**321,264**	302,160

Disposal group

At 30 June 2012, 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 2012. Liabilities of disposal groups held for sale amounted to US$20.7 million (31 December 2011 – US$51.5 million).

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. 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'.

9 Financial liabilities designated at fair value

	30 June 2012 US$000	31 December 2011 US$000
Debt securities in issue	**501,546**	507,830

At 30 June 2012, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of US$3.9 million.

10 Debt securities in issue

	30 June 2012		31 December 2011	
	Carrying amount US$000	Fair value US$000	Carrying amount US$000	Fair value US$000
Medium term notes	**5,182,899**	**5,182,591**	4,463,704	4,472,043
Non-equity preference shares	**1,050,000**	**950,240**	1,150,000	983,004
	6,232,899	**6,132,831**	5,613,704	5,455,047
Of which debt securities in issue reported as				
trading liabilities	**(939,739)**	**(939,739)**	(707,711)	(707,711)
financial liabilities designated at fair value (Note 9)	**(501,546)**	**(501,546)**	(507,830)	(507,830)
	4,791,614	**4,691,546**	4,398,163	4,239,506

On 14 March 2012 the bank redeemed 100,000 cumulative redeemable preference shares of US$1.00 each (the "Sixth Issue") issued at a premium of US$999.00 per share.

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

11 Fair values of financial instruments

Fair values are determined in accordance with the methodology set out in the *Annual Report and Accounts 2011* in the accounting policies and in Note 26.

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 2012				
Assets				
Trading assets	**–**	**839,911**	**70,902**	**910,813**
Derivatives	**–**	**1,371,536**	**3,047**	**1,374,583**
Financial investments: available-for-sale	**236,293**	**10,070,896**	**562,320**	**10,869,509**
Liabilities				
Trading liabilities	**–**	**1,155,484**	**–**	**1,155,484**
Financial liabilities designated at fair value	**501,546**	**–**	**–**	**501,546**
Derivatives	**–**	**1,334,247**	**539**	**1,334,786**
At 31 December 2011				
Assets				
Trading assets	46,561	601,509	207,711	855,781
Derivatives	–	1,265,229	4,759	1,269,988
Financial investments: available-for-sale	250,470	9,522,205	556,738	10,329,413
Liabilities				
Trading liabilities	–	757,274	–	757,274
Financial liabilities designated at fair value	507,830	–	–	507,830
Derivatives	–	1,228,601	2,631	1,231,232

Fair values of financial instruments not carried at fair value

	30 June 2012		31 December 2011	
	Carrying amount	**Fair Value**	Carrying amount	Fair Value
	US$000	**US$000**	US$000	US$000
Assets				
Loans and advances to banks	**9,755,881**	**9,764,466**	8,076,477	8,083,175
Loans and advances to customers	**23,496,936**	**23,627,562**	21,560,861	21,614,872
Liabilities				
Deposits by banks	**2,074,738**	**2,086,914**	2,080,192	2,087,115
Customer accounts	**31,608,376**	**31,608,350**	28,826,332	28,820,783
Debt securities in issue	**4,791,614**	**4,691,283**	4,398,163	4,239,506

12 Contingent liabilities, contractual commitments and guarantees

	At 30 June 2012	At 31 December 2011
	US$000	US$000
Guarantees and other contingent liabilities		
Guarantees and irrevocable letters of credit pledged as collateral security	**12,175,381**	11,634,963
	12,175,381	11,634,963
Commitments		
Documentary credits and short-term trade-related transactions	**2,068,018**	1,638,403
Undrawn formal standby facilities, credit lines and other commitments to lend	**17,516,007**	15,062,242
	19,584,025	16,700,645

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

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 13. 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 and Accounts 2011*.

13 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.

Management have reviewed the potential impact of legal actions in consultation with legal counsel and consider that no material impact on the financial position of the group is expected to arise from these proceedings.

The group is co-operating in ongoing investigations by the US Department of Justice, the New York County District Attorney's Office, the Office of Foreign Asset Control ('OFAC'), the Federal Reserve and the Office of the Comptroller of the Currency regarding historical transactions involving Iranian parties and other parties subject to OFAC economic sanctions.

14 Events after the balance sheet date

A first interim dividend for the financial year ending 31 December 2012 of US$50 million was declared by the Board of Directors on 10 July 2012.

15 Interim Report 2012 and statutory accounts

The information in this Interim Report 2012 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 2012 was approved by the Board of Directors on 31 July 2012. The statutory accounts for the year ended 31 December 2011 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 2012 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 2012 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU.

Eric J.Bertrand
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants
37 Esplanade
St Helier
Jersey
JE4 8WQ

1 August 2012

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 website is the responsibility of the directors, the work carried out by KPMG Channel Islands Limited does not involve consideration of these matters and, accordingly, KPMG Channel Islands Limited accept no responsibility for any changes that may have occurred to the condensed consolidated set of financial statements or review report since the 1 August 2012. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 1 August 2012 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.