HSBC Bank Middle East Limited

Interim Financial Statements

30 June 2013

Interim Financial Statements 2013

Contents

Presentation of Information

This document comprises the Interim Financial Statements 2013 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 2013

	Notes	Half-year to 30 June 2013 US$000	30 June 2012 US$000
Interest income		**685,471**	693,145
Interest expense		**(137,941)**	(167,521)
Net interest income		**547,530**	525,624
Fee income		**303,735**	294,778
Fee expense		**(38,476)**	(36,636)
Net fee income		**265,259**	258,142
Trading income excluding net interest income		**189,139**	172,866
Net interest (expense)/income on trading activities		**(2,020)**	1,322
Net trading income.		**187,119**	174,188
Net expense from financial instruments designated at fair value		**(944)**	(4,361)
Gains less losses from financial investments		**3,821**	4,603
Dividend income		**4,129**	2,927
Other operating income		**18,348**	28,423
Net operating income before loan impairment charges and other credit risk provisions		**1,025,262**	989,546
Loan impairment recoveries /(charges) and other credit risk provisions	*5*	**27,507**	(106,721)
Net operating income		**1,052,769**	882,825
Employee compensation and benefits		**(269,252)**	(262,686)
General and administrative expenses		**(224,361)**	(169,952)
Depreciation and impairment of property, plant and equipment		**(12,440)**	(10,771)
Amortisation and impairment of intangible assets		**(6,628)**	(3,290)
Total operating expenses		**(512,681)**	(446,699)
Operating profit		**540,088**	436,126
Share of profit/(loss) in associates		**242**	(4,183)
Profit before tax		**540,330**	431,943
Tax expense		**(80,298)**	(62,474)
Profit for the period		**460,032**	369,469
Profit attributable to shareholders of the parent company		**447,706**	342,423
Profit attributable to non-controlling interests		**12,326**	27,046

The accompanying notes on pages 8 to 25 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 2013

	Half-year to	
	30 June 2013 US$000	30 June 2012 US$000
Profit for the period	**460,032**	369,469
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Available for sale investments:	**10,184**	2,373
– fair value gains	**13,836**	6,593
– fair value gains transferred to income statement on disposal	**(3,391)**	(4,530)
– income taxes	**(261)**	310
Cash flow hedges:	**(2,730)**	4,155
– fair value (losses)/gains	**(3,470)**	3,000
– fair value losses transferred to income statement	**–**	2,193
– income taxes	**740**	(1,038)
Exchange differences and other	**(8,978)**	(8,603)
Other comprehensive income for the period, net of tax	**(1,524)**	(2,075)
Total comprehensive income for the period	**458,508**	367,394
Total comprehensive income for the period attributable to:		
– shareholders of the parent company	**442,979**	340,358
– non-controlling interests	**15,529**	27,036
	458,508	367,394

The accompanying notes on pages 8 to 25 form an integral part of these condensed financial statements.

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of financial position at 30 June 2013

	Notes	At 30 June 2013 US$000	At 31 December 2012 US$000
ASSETS			
Cash and balances at central banks		**1,223,632**	892,603
Items in the course of collection from other banks		**67,163**	116,083
Trading assets	*11*	**608,510**	580,613
Derivatives	*11*	**1,346,127**	1,436,242
Loans and advances to banks	*11*	**8,939,278**	9,537,777
Loans and advances to customers	*11*	**24,039,106**	24,015,266
Financial investments	*11*	**12,831,541**	11,206,230
Assets held for sale	*8*	**462,034**	541,736
Other assets		**1,300,701**	1,472,361
Prepayments and accrued income		**178,492**	196,665
Interests in associates		**30,327**	30,632
Intangible assets		**61,140**	65,824
Property, plant and equipment		**164,579**	166,168
Deferred tax assets		**180,469**	198,722
Total assets		**51,433,099**	50,456,922
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	*11*	**1,608,745**	1,803,014
Customer accounts	*11*	**34,011,605**	32,038,176
Items in the course of transmission to other banks		**315,730**	569,835
Trading liabilities	*11*	**1,314,497**	1,090,962
Financial liabilities designated at fair value	*9, 11*	**502,884**	508,989
Derivatives	*11*	**1,372,822**	1,418,636
Debt securities in issue	*10, 11*	**3,906,258**	4,876,509
Liabilities of disposal groups held for sale	*8*	**387,335**	457,400
Other liabilities		**2,230,040**	2,261,340
Current tax liabilities		**112,421**	130,623
Accruals and deferred income		**135,661**	151,259
Provisions		**35,144**	42,893
Deferred tax liabilities		**7,582**	6,761
Retirement benefit liabilities		**83,975**	80,238
Total liabilities		**46,024,699**	45,436,635
Equity			
Called up share capital		**931,055**	931,055
Other reserves		**33,025**	36,989
Retained earnings		**4,042,510**	3,664,579
Total equity attributable to the shareholders of the parent company		**5,006,590**	4,632,623
Non-controlling interests		**401,810**	387,664
Total equity		**5,408,400**	5,020,287
Total equity and liabilities		**51,433,099**	50,456,922

The accompanying notes on pages 8 to 25 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 2013

	Half-year to	
	30 June 2013 US$000	30 June 2012 US$000
Cash flows from operating activities		
Profit before tax	**540,330**	431,943
Adjustments for:		
– non-cash items included in profit before tax	**15,293**	153,992
– change in operating assets	**598,351**	(1,262,127)
– change in operating liabilities	**767,605**	968,369
– elimination of exchange differences[1]	**(5,628)**	(33,031)
– net loss from investing activities	**(4,772)**	(4,479)
– share of losses/(profits) in associates	**(242)**	4,183
– distributions from associates	**547**	391
– contributions paid to defined benefit pension plans	**–**	(108)
– tax paid	**(81,412)**	(118,165)
Net cash generated from operating activities	**1,830,072**	140,968
Cash flows used in investing activities		
Purchase of financial investments	**(6,247,114)**	(6,985,045)
Proceeds from the sale and maturity of financial investments	**5,597,917**	4,795,668
Purchase of property, plant and equipment	**(11,394)**	(5,059)
Proceeds from the sale of property, plant and equipment	**685**	4,009
Purchase of intangible assets	**(1,973)**	(2,444)
Proceeds from the sale of intangible assets	**180**	–
Net cash inflow from acquisition of subsidiary	**–**	626,657
Net cash used in investing activities	**(661,699)**	(1,566,214)
Cash flows from financing activities		
Non equity preference share capital redeemed	**(100,000)**	(100,000)
Equity dividends paid	**(65,000)**	–
Dividends paid to non-controlling interests	**(2,545)**	(7)
Net cash used in financing activities	**(167,545)**	(100,007)
Net increase/(decrease) in cash and cash equivalents	**1,000,828**	(1,525,253)
Cash and cash equivalents at the beginning of the period	**9,160,192**	10,698,851
Exchange differences in respect of cash and cash equivalents	**(13,076)**	38,907
Cash and cash equivalents at the end of the period	**10,147,944**	9,212,505

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 25 form an integral part of these condensed financial statements.

Consolidated statement of changes in equity for the half-year to 30 June 2013

	Half-year to 30 June 2013									
			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**	**3,664,579**	**62,596**	**6,688**	**(17,576)**	**633**	**(15,352)**	**4,632,623**	**387,664**	**5,020,287**
Profit for the period	**–**	**447,706**	**–**	**–**	**–**	**–**	**–**	**447,706**	**12,326**	**460,032**
Other comprehensive income (net of tax)	**–**	**(25)**	**6,985**	**(2,730)**	**(8,957)**	**–**	**–**	**(4,727)**	**3,203**	**(1,524)**
Available-for-sale investments	**–**	**–**	**6,989**	**–**	**–**	**–**	**–**	**6,989**	**3,195**	**10,184**
Cash flow hedges	**–**	**–**	**–**	**(2,730)**	**–**	**–**	**–**	**(2,730)**	**–**	**(2,730)**
Exchange differences and other	**–**	**(25)**	**(4)**	**–**	**(8,957)**	**–**	**–**	**(8,986)**	**8**	**(8,978)**
Total comprehensive income for the period	**–**	**447,681**	**6,985**	**(2,730)**	**(8,957)**	**–**	**–**	**442,979**	**15,529**	**458,508**
Dividends to shareholders	**–**	**(65,000)**	**–**	**–**	**–**	**–**	**–**	**(65,000)**	**(2,545)**	**(67,545)**
Cost of share-based payment arrangements	**–**	**284**	**–**	**–**	**–**	**–**	**–**	**284**	**–**	**284**
Other movements	**–**	**(5,034)**	**(254)**	**–**	**–**	**992**	**–**	**(4,296)**	**1,162**	**(3,134)**
Changes in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June	**931,055**	**4,042,510**	**69,327**	**3,958**	**(26,533)**	**1,625**	**(15,352)**	**5,006,590**	**401,810**	**5,408,400**

The accompanying notes on pages 8 to 25 form an integral part of these condensed financial statements.

	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
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 25 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 2012 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 2012, there were no unendorsed standards effective for the year ended 31 December 2012 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 2012 were prepared in accordance with IFRSs as issued by the IASB.

Standards adopted during the period ended 30 June 2013

On 1 January 2013, the group adopted the following significant new standards and revisions to standards for which the financial effect is insignificant to these interim consolidated financial statements:

- IFRS 10 'Consolidated Financial Statements,' IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and amendments to IFRS 10, IFRS 11 and IFRS 12 'Transition Guidance'. IFRS 10 and 11 is required to be applied retrospectively.

  Under IFRS 10, there is one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This replaces the approach which applied to previous financial statements which emphasised legal control or exposure to risks and rewards, depending on the nature of the entity. The group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

  IFRS 11 places more focus on the investors' rights and obligations than on the structure of the arrangement when determining the type of joint arrangement in which the group is involved and introduces the concept of a joint operation.

  IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including for unconsolidated structured entities.

- IFRS 13 'Fair Value Measurement' establishes a single framework for measuring fair value and introduces new requirements for disclosure of fair value measurements. 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.

- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires disclosure of the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments have been applied retrospectively.

- Amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). IAS 19 revised is required to be applied retrospectively. IAS 19 revised replaces the interest cost and expected return on plan assets with a finance cost comprising the net interest on the net defined benefit liability or asset. This finance cost is determined by applying to the net defined benefit liability or asset the same discount rate used to measure the defined benefit obligation. The difference between the actual return on plan assets and the return included in the finance cost component reflected in the income statement is presented in other comprehensive income. The effect of this change is to increase or decrease the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate.

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

At 30 June 2013, there were no unendorsed standards effective for the period ended 30 June 2013 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 2013, the group also adopted amendments to standards 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 and the valuation of intangible assets recognised in business combinations. These critical accounting policies are described in the *Annual Report and Accounts 2012*.

(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 2012*.

(f) Future accounting developments

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting which will represent significant changes to accounting requirements in the future.

Amendments issued by the IASB and endorsed by the EU

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.

Based on the assessment performed to date, we do not expect the amendments to IAS 32 to have a material effect on the group's financial statements.

Amendments issued by the IASB but not endorsed by the EU

Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 'Financial Instruments' which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement.'

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets and general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be addressed separately.

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

Following the IASB's decision in December 2011 to defer the effective date, the existing version of IFRS 9 is effective for annual periods beginning on or after 1 January 2015. IFRS 9 is required to be applied retrospectively but prior periods need not be restated. However, as a result of the IASB's decision that all phases of IFRS 9 will be applied from the same effective date and the fact that it now seems unlikely that the final standard will be issued in 2013, we expect that the mandatory effective date of IFRS 9 will be deferred at least until 1 January 2016. Since the final requirements for classification and measurement are uncertain, it remains impracticable to quantify the effect of the existing IFRS 9 as at the date of the publication of these financial statements.

The group is currently assessing the impact of the general hedge accounting requirements.

(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).

On 25 October 2012, the group acquired the onshore retail and commercial banking business of Lloyds Banking Group in the United Arab Emirates (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 2012,* except as disclosed in Note 1. 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 2012.*

3 Segment analysis

The factors used to identify the group's reporting segments are discussed in the *Annual Report and Accounts 2012*.

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 ('RBWM') offers a broad range of products and services to meet the personal banking, consumer finance and wealth management needs of individual customers. Typical customer offerings include personal banking products (including current and savings accounts, mortgages and personal loans, credit cards, debit cards and insurance, wealth management and local and international payment services) and wealth management services (insurance and investment products and financial planning services).
- Commercial Banking ('CMB') product offerings include the provision of receivables, financing services, payments and cash management, international trade finance, treasury and capital markets, commercial cards, insurance, cash and derivatives in foreign exchange and rates, and online and direct banking offerings.
- Global Banking and Markets ('GB&M') 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 high net worth individuals and families with complex and international needs.

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

Reconciliation of reportable segment profit for the period

	For the half-year to 30 June 2013					
	UAE US$000	Oman US$000	Qatar US$000	Rest of Middle East US$000	Intra-group items US$000	Total US$000
Net interest income	**337,835**	**62,692**	**46,283**	**100,720**	**–**	**547,530**
Net fee income	**164,092**	**15,005**	**32,240**	**53,922**	**–**	**265,259**
Net trading income	**122,262**	**10,165**	**23,279**	**31,413**	**–**	**187,119**
Net expense from financial instruments designated at fair value	**(944)**	**–**	**–**	**–**	**–**	**(944)**
Gains less losses from financial investments[1]	**3,821**	**–**	**–**	**–**	**–**	**3,821**
Dividend income	**3,617**	**426**	**–**	**86**	**–**	**4,129**
Other operating income	**56,896**	**(2,117)**	**1,945**	**1,634**	**(40,010)**	**18,348**
Net operating income before loan impairment charges and other credit risk provisions	**687,579**	**86,171**	**103,747**	**187,775**	**(40,010)**	**1,025,262**
Loan impairment (charges)/recoveries and other credit risk provisions[1]	**3,760**	**8,913**	**(3,627)**	**18,461**	**–**	**27,507**
Net operating income	**691,339**	**95,084**	**100,120**	**206,236**	**(40,010)**	**1,052,769**
Employee compensation and benefits	**(194,656)**	**(26,774)**	**(16,739)**	**(31,083)**	**–**	**(269,252)**
General and administrative expenses	**(156,669)**	**(34,258)**	**(22,430)**	**(51,014)**	**40,010**	**(224,361)**
Depreciation and impairment of property, plant and equipment[1]	**(6,122)**	**(3,374)**	**(1,137)**	**(1,807)**	**–**	**(12,440)**
Amortisation of intangible assets[1]	**(3,371)**	**(3,044)**	**(84)**	**(129)**	**–**	**(6,628)**
Total operating expenses	**(360,818)**	**(67,450)**	**(40,390)**	**(84,033)**	**40,010**	**(512,681)**
Operating profit	**330,521**	**27,634**	**59,730**	**122,203**	**–**	**540,088**
Share of profit in associates	**242**	**–**	**–**	**–**	**–**	**242**
Profit before tax	**330,763**	**27,634**	**59,730**	**122,203**	**–**	**540,330**
Tax expense	**(56,072)**	**(4,236)**	**(5,586)**	**(14,404)**	**–**	**(80,298)**
Profit for the period	**274,691**	**23,398**	**54,144**	**107,799**	**–**	**460,032**

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 2012					
	UAE US$000	Oman[2] US$000	Qatar US$000	Rest of Middle East US$000	Intra-group items US$000	Total US$000
Net interest income	333,128	34,760	50,761	106,975	–	525,624
Net fee income	161,527	10,647	31,657	54,311	–	258,142
Net trading income	110,019	8,990	22,491	32,688	–	174,188
Net expense 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	3,675	2,796	1,429	(38,388)	28,423
Net operating income before loan impairment charges and other credit risk provisions	666,655	58,072	107,705	195,502	(38,388)	989,546
Loan impairment (charges)/recoveries and other credit risk provisions[1]	(50,022)	530	512	(57,741)	–	(106,721)
Net operating income	616,633	58,602	108,217	137,761	(38,388)	882,825
Employee compensation and benefits	(194,935)	(16,237)	(18,345)	(33,169)	–	(262,686)
General and administrative expenses	(115,474)	(16,478)	(23,309)	(53,079)	38,388	(169,952)
Depreciation and impairment of property, plant and equipment[1]	(6,807)	(699)	(1,295)	(1,970)	–	(10,771)
Amortisation of intangible assets[1]	(2,473)	(644)	(56)	(117)	–	(3,290)
Total operating expenses	(319,689)	(34,058)	(43,005)	(88,335)	38,388	(446,699)
Operating profit	296,944	24,544	65,212	49,426	–	436,126
Share of profit in associates	(4,183)	–	–	–	–	(4,183)
Profit before tax	292,761	24,544	65,212	49,426	–	431,943
Tax expense	(41,667)	(2,912)	(6,782)	(11,113)	–	(62,474)
Profit for the period	251,094	21,632	58,430	38,313	–	369,469

1 *Significant non-cash item.*
2 *As explained in Note 7, 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’). The unaudited financial results for the six months ended 30 June 2012 include six months of HSBC Bank Middle East Limited, Oman branches, and one month of Oman International Bank S.A.O.G.*

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

Statement of financial position information

	UAE US$000	Oman US$000	Qatar US$000	Rest of Middle East US$000	Intra-group items US$000	Total US$000
Half-year ended 30 June 2013						
Loans and advances to customers (net)	**15,885,479**	**2,821,955**	**1,534,681**	**3,796,991**	**–**	**24,039,106**
Interest in associates	**30,327**	**–**	**–**	**–**	**–**	**30,327**
Total assets	**32,429,545**	**6,867,071**	**6,008,581**	**8,947,050**	**(2,819,148)**	**51,433,099**
Customer accounts	**18,870,290**	**5,577,149**	**4,064,652**	**5,499,514**	**–**	**34,011,605**
Total liabilities	**27,857,887**	**6,056,948**	**5,990,820**	**8,938,192**	**(2,819,148)**	**46,024,699**
Year ended 31 December 2012						
Loans and advances to customers (net)	15,410,868	3,097,838	1,844,129	3,662,431	–	24,015,266
Interest in associates	30,632	–	–	–	–	30,632
Total assets	32,786,820	6,363,278	4,819,494	9,539,520	(3,052,190)	50,456,922
Customer accounts	18,472,470	4,786,180	2,703,974	6,075,552	–	32,038,176
Total liabilities	28,571526	5,575,215	4,802,532	9,539,552	(3,052,190)	45,436,635

Net operating income and profit before tax 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[2] US$000	Inter Segment US$000	Total US$000
Half-year ended 30 June 2013							
Net operating income[1]	**344,574**	**360,199**	**327,142**	**354**	**33,003**	**(40,010)**	**1,025,262**
Profit before tax	**109,999**	**237,283**	**220,269**	**923**	**(28,144)**	**–**	**540,330**
Half-year ended 30 June 2012							
Net operating income[1]	303,336	363,004	311,673	6,586	43,335	(38,388)	989,546
Profit before tax	72,020	227,337	134,894	350	(2,658)	–	431,943

1 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*
2 *The main items reported in the 'Other' category are certain property activities, unallocated investment activities, centrally held investment companies movements in fair value of own debt and the head office company and financing operations.*

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 2013	**Total US$000**	**As a % of total gross loans %**
Personal		
Residential mortgages	**2,294,270**	**8.97**
Other personal	**3,602,155**	**14.08**
	5,896,425	**23.05**
Corporate and commercial		
Commercial, industrial and international trade	**10,779,160**	**42.12**
Commercial real estate	**787,372**	**3.08**
Other property-related	**1,486,322**	**5.81**
Government	**1,473,485**	**5.76**
Other commercial	**3,441,911**	**13.45**
	17,968,250	**70.22**
Financial		
Non-bank financial institutions	**1,722,226**	**6.73**
Settlement accounts	**1**	**0.00**
	1,722,227	**6.73**
Total gross loans and advances	**25,586,902**	**100.00**
Impaired loans		
- as a percentage of gross loans and advances to customers	**8.47%**	
Total impairment allowances		
- as a percentage of gross loans and advances to customers	**6.05%**	
At 31 December 2012		
Personal		
Residential mortgages	2,142,332	8.35
Other personal	3,609,565	14.07
	5,751,897	22.42
Corporate and commercial		
Commercial, industrial and international trade	10,444,654	40.72
Commercial real estate	781,628	3.05
Other property-related	2,063,536	8.05
Government	1,482,153	5.78
Other commercial	4,048,470	15.79
	18,820,441	73.39
Financial		
Non-bank financial institutions	1,075,141	4.19
Settlement accounts	1	0.00
	1,075,142	4.19
Total gross loans and advances	25,647,480	100.00
Impaired loans		
- as a percentage of gross loans and advances to customers	8.99%	
Total impairment allowances		
- as a percentage of gross loans and advances to customers	6.36%	

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/recoveries and other credit risk provisions

	Half-year to	
	30 June 2013	30 June 2012
	US$000	US$000
Total loans and advances		
– new allowances net of allowance releases	**3,667**	147,445
– recoveries of amounts previously written off	**(33,771)**	(40,818)
	(30,104)	106,627
Impairment charges/(recoveries) on debt securities and other credit risk provisions	**2,597**	94
	(27,507)	106,721

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 2013	**17,388**	**1,224,574**	**407,639**	**1,649,601**
Amounts written off	**–**	**(36,323)**	**(48,819)**	**(85,142)**
Recoveries of loans and advances written off in previous years	**–**	**13,790**	**19,981**	**33,771**
(Recoveries)/charge to income statement	**(78)**	**(37,196)**	**7,170**	**(30,104)**
Exchange and other movements	**(5)**	**(2,897)**	**(123)**	**(3,025)**
At 30 June 2013	**17,305**	**1,161,948**	**385,848**	**1,565,101**
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

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

6 Credit quality of financial instruments

The five credit quality classifications set out and defined in the *Annual Report and Accounts 2012* describe the credit quality of the group's lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between internal and external ratings at granular level, except to the extent each falls within a single quality classification.

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

	30 June 2013							
	Neither past due nor impaired							
	Strong US$000	Good US$000	Satisfactory US$000	Sub-standard US$000	Past due but not impaired US$000	Impaired US$000	Impairment allowances US$000	Total US$000
Cash and balances at central banks	**1,098,139**	**75,364**	**26,158**	**23,971**	**–**	**–**	**–**	**1,223,632**
Items in the course of collection from other banks	**–**	**–**	**67,163**	**–**	**–**	**–**	**–**	**67,163**
Trading assets	**375,286**	**68,071**	**164,989**	**164**	**–**	**–**	**–**	**608,510**
– treasury and other eligible bills	**–**	**–**	**9,063**	**–**	**–**	**–**	**–**	**9,063**
– debt securities	**188,350**	**68,071**	**130,436**	**164**	**–**	**–**	**–**	**387,021**
– loans and advances to banks	**171,737**	**–**	**–**	**–**	**–**	**–**	**–**	**171,737**
– loans and advances to customers	**15,199**	**–**	**25,490**	**–**	**–**	**–**	**–**	**40,689**
Derivatives	**155,524**	**114,225**	**935,782**	**140,596**	**–**	**–**	**–**	**1,346,127**
Loans and advances held at amortised cost	**16,452,635**	**6,571,282**	**6,918,474**	**1,433,694**	**978,084**	**2,189,316**	**(1,565,101)**	**32,978,384**
– loans and advances to banks	**7,103,398**	**1,137,660**	**503,752**	**189,754**	**–**	**22,019**	**(17,305)**	**8,939,278**
– loans and advances to customers	**9,349,237**	**5,433,622**	**6,414,722**	**1,243,940**	**978,084**	**2,167,297**	**(1,547,796)**	**24,039,106**
Financial investments	**4,908,738**	**543,096**	**6,994,984**	**184,065**	**–**	**–**	**–**	**12,630,883**
– treasury and other similar bills	**1,301,707**	**384,350**	**–**	**61,913**	**–**	**–**	**–**	**1,747,970**
– debt securities	**3,607,031**	**158,746**	**6,994,984**	**122,152**	**–**	**–**	**–**	**10,882,913**
Other assets	**61,318**	**229,885**	**1,065,957**	**47,083**	**28,208**	**2,287**	**–**	**1,434,738**
– endorsements and acceptances	**59,218**	**227,778**	**821,098**	**47,083**	**28,208**	**443**	**–**	**1,183,828**
– accrued income and other	**2,100**	**2,107**	**244,859**	**–**	**–**	**1,844**	**–**	**250,910**
Total financial instruments	**23,051,640**	**7,601,923**	**16,173,507**	**1,829,573**	**1,006,292**	**2,191,603**	**(1,565,101)**	**50,289,437**

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

	31 December 2012							
	Neither past due nor impaired							
	Strong US$000	Good US$000	Satisfactory US$000	Sub-standard US$000	Past due but not impaired US$000	Impaired US$000	Impairment allowances US$000	Total US$000
Cash and balances at central banks	686,399	145,299	60,905	–	–	–	–	892,603
Items in the course of collection from other banks	–	28,908	87,175	–	–	–	–	116,083
Trading assets	339,750	69,017	169,527	2,319	–	–	–	580,613
– treasury and other eligible bills	–	–	–	–	–	–	–	–
– debt securities	238,198	69,017	153,516	2,319	–	–	–	463,050
– loans and advances to banks	84,639	–	–	–	–	–	–	84,639
– loans and advances to customers	16,913	–	16,011	–	–	–	–	32,924
Derivatives	97,467	166,484	1,050,681	121,610	–	–	–	1,436,242
Loans and advances held at amortised cost	16,324,543	7,506,799	6,620,989	1,469,153	949,991	2,331,169	(1,649,601)	33,553,043
– loans and advances to banks	8,150,928	622,299	590,438	165,325	–	26,175	(17,388)	9,537,777
– loans and advances to customers	8,173,615	6,884,500	6,030,551	1,303,828	949,991	2,304,994	(1,632,213)	24,015,266
Financial investments	3,660,570	611,182	6,548,644	192,392	–	–	–	11,012,788
– treasury and other similar bills	1,090,209	459,845	3,597	104,356	–	–	–	1,658,007
– debt securities	2,570,361	151,337	6,545,047	88,036	–	–	–	9,354,781
Other assets	111,778	173,259	1,263,516	81,222	6,360	624	–	1,636,759
– endorsements and acceptances	100,928	173,259	945,324	81,222	6,360	624	–	1,307,717
– accrued income and other	10,850	–	318,192	–	–	–	–	329,042
Total financial instruments	21,220,507	8,700,948	15,801,437	1,866,696	956,351	2,331,793	(1,649,601)	49,228,131

7 Investment in subsidiaries

Acquisition of Oman International Bank S.A.O.G.

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$201.2 million.

Negative goodwill of US$3.2 million arose from this acquisition.

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 fair value 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. This gain arose from a transaction with owners in the capacity of owners and is recognised directly into 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$1,780 million. The gross amount of loans and advances to customers is US$2,061 million, of which US$235 million is expected to be uncollectable.

Acquisition of the onshore UAE retail and commercial banking business of Lloyds Banking Group in the United Arab Emirates

On 25 October 2012, HSBC Bank Middle East Limited ('HBME') acquired the onshore retail and commercial banking business of Lloyds Banking Group in the United Arab Emirates.

Negative goodwill of US$17.6 million arose from this acquisition.

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

The following table summarises the consideration transferred to acquire the onshore retail and commercial banking business of Lloyds Banking Group:

	Acquisition date US$000
Consideration	
Cash	148,557
Total consideration transferred	148,557

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	353,555	353,555
Derivatives	-	-
Loans and advances to banks	18,101	18,101
Loans and advances to customers	412,703	408,070
Financial investments	33,356	33,356
Other assets	20,214	20,214
Prepayments and accrued income	2,330	2,330
Intangible assets – core deposit intangible	11,382	-
Intangible assets – customer relationships	3,567	-
Intangible assets – preferential lease	1,447	-
Property, plant and equipment	1,220	1,220
Liabilities		
Deposits by banks	(3,566)	(3,566)
Customer accounts	(663,961)	(663,961)
Items in the course of transmission to other banks		
Derivatives	(45)	(45)
Other liabilities	(21,652)	(21,652)
Deferred tax liabilities	(927)	-
Accruals and deferred income	(1,565)	(1,565)
Total identifiable net assets	166,159	
Negative goodwill arising on acquisition	(17,602)	
Total consideration transferred	148,557	

The fair value of the loans and advances to customers amounts to US$413 million. The gross amount of loans and advances to customers is US$459 million, of which US$51 million is expected to be uncollectable.

8 Assets held for sale

	30 June 2013 US$000	31 December 2012 US$000
Disposal group	**462,034**	541,736
Total assets held for sale	**462,034**	541,736

Disposal group

At 30 June 2013, the disposal group related to the disposal of the Pakistan operations. The transaction, which is subject to the local central bank approval, is expected to be completed in 2013. Associated liabilities of US$387.3 million are included in 'Liabilities of disposal groups held for sale'.

The sale of 80.1% of the private equity business to the unit's senior management team was completed during 2012.

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

9 Financial liabilities designated at fair value

	30 June 2013 US$000	31 December 2012 US$000
Debt securities in issue	**502,884**	508,989

At 30 June 2013, the accumulated amount of change in fair value attributable to changes in credit risk was a gain of US$0.5 million.

10 Debt securities in issue

	30 June 2013		31 December 2012	
	Carrying amount US$000	**Fair value US$000**	Carrying amount US$000	Fair value US$000
Medium term notes	**4,575,367**	**4,563,568**	5,347,049	5,351,345
Non-equity preference shares	**950,000**	**890,115**	1,050,000	950,981
	5,525,367	**5,453,683**	6,397,049	6,302,326
Of which debt securities in issue reported as				
trading liabilities	**(1,116,225)**	**(1,116,225)**	(1,011,551)	(1,011,551)
financial liabilities designated at fair value (Note 9)	**(502,884)**	**(502,884)**	(508,989)	(508,989)
	3,906,258	**3,834,574**	4,876,509	4,781,786

On 20 June 2013 the bank redeemed 100,000 cumulative redeemable preference shares of US$1.00 each (the “Seventh 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

The accounting policies which determine the classification of financial instruments and the use of assumptions and estimation in valuing them are described in the *Annual Report and Accounts 2012*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments carried at fair value and bases of valuation

		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 2013				
Recurring fair value measurements				
Assets				
Trading assets	**–**	**525,764**	**82,746**	**608,510**
Derivatives	**–**	**1,343,745**	**2,382**	**1,346,127**
Financial investments: available-for-sale	**10**	**11,944,433**	**887,098**	**12,831,541**
Liabilities				
Trading liabilities	**–**	**1,314,497**	**–**	**1,314,497**
Financial liabilities designated at fair value	**502,884**	**–**	**–**	**502,884**
Derivatives	**–**	**1,368,144**	**4,678**	**1,372,822**
Non-recurring fair value measurements				
Assets of disposal groups held for sale				
Trading assets	**–**	**–**	**–**	**–**
Derivatives	**–**	**227**	**–**	**227**
Financial investments: available-for-sale	**134,736**	**–**	**–**	**134,736**
Liabilities of disposal groups held for sale				
Trading liabilities	**–**	**–**	**–**	**–**
Financial liabilities designated at fair value	**–**	**–**	**–**	**–**
Derivatives	**–**	**367**	**–**	**367**
At 31 December 2012				
Assets				
Trading assets	–	495,308	85,305	580,613
Derivatives	–	1,432,634	3,608	1,436,242
Financial investments: available-for-sale	5,467	10,646,600	554,163	11,206,230
Liabilities				
Trading liabilities	–	1,090,962	–	1,090,962
Financial liabilities designated at fair value	508,989	–	–	508,989
Derivatives	–	1,418,235	401	1,418,636

Fair values of financial instruments which are not carried at fair value on the balance sheet

	30 June 2013		31 December 2012	
	Carrying amount	**Fair Value**	Carrying amount	Fair Value
	US$000	**US$000**	US$000	US$000
Assets				
Loans and advances to banks	**8,939,278**	**8,942,316**	9,537,777	9,543,668
Loans and advances to customers	**24,039,106**	**24,059,685**	24,015,266	24,034,974
Liabilities				
Deposits by banks	**1,608,745**	**1,618,379**	1,803,014	1,816,433
Customer accounts	**34,011,605**	**34,010,492**	32,038,176	32,036,993
Debt securities in issue	**3,906,258**	**3,834,574**	4,876,509	4,781,786

There were no material transfers between Level 1 and Level 2 in the period.

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

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that they comply with all relevant accounting standards.

Further details of the control framework are included in the *Annual Report and Accounts 2012.*

Determination of fair value

Fair values are determined according to the following hierarchy:

- Level 1 – *quoted market price*: financial instruments with quoted prices for identical instruments in active markets.

- Level 2 – *valuation technique using observable inputs*: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

- Level 3 – *valuation technique with significant unobservable inputs*: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. Further details on fair values determined using valuation techniques are included in the *Annual Report and Accounts 2012*.

Movement in Level 3 financial instruments

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	Assets			Liabilities
	Available-for-sale US$000	Held for Trading US$000	Derivatives US$000	Derivatives US$000
2013				
At 1 January	**554,163**	**85,305**	**3,608**	**401**
Total gains or losses recognised in profit or loss	**(913)**	**(2,559)**	**(1,538)**	**4,277**
Total gains or losses recognised in other comprehensive income	**121**	-	-	-
Purchases	**180,503**	-	-	-
Sales	-	-	-	-
Transfers out	-	-	**(34)**	-
Transfers in	**153,224**	-	**346**	-
At 30 June	**887,098**	**82,746**	**2,382**	**4,678**
Total gains/(losses) recognised in profit or loss relating to those assets and liabilities held on 30 June 2013	**(913)**	**(2,559)**	**(1,538)**	**4,038**
2012				
At 1 January	556,738	207,711	4,759	2,631
Total gains or losses recognised in profit or loss	-	(1,023)	1,520	(2,230)
Total gains or losses recognised in other comprehensive income	(2,669)	-	-	-
Purchases	566	-	-	-
Sales	(472)	(136,809)	-	-
Transfers out	-	-	(2,705)	-
Transfers in	-	15,426	34	-
At 31 December	554,163	85,305	3,608	401
Total gains/(losses) recognised in profit or loss relating to those assets and liabilities held on 31 December 2012	-	(1,023)	3,091	(2,230)

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

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under 'Trading income excluding net interest income'.

Realised gains and losses from available-for-sale securities are presented under 'Gains less losses from financial investments' in the income statement while unrealised gains and losses are presented in 'Fair value gains/(losses) taken to equity' within 'Available-for-sale investments' in other comprehensive income.

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values to reasonably possible alternative assumptions:

Sensitivity of fair values to reasonably possible alternative assumptions

	Reflected in profit/(loss)		Reflected in equity	
	Favourable changes US$000	**Unfavourable changes US$000**	**Favourable changes US$000**	**Unfavourable changes US$000**
At 30 June 2013				
Derivatives/trading assets/trading liabilities[1]	**8,309**	**(8,309)**	**-**	**-**
Financial investments: available-for-sale	**-**	**-**	**88,674**	**(88,674)**
At 31 December 2012				
Derivatives/trading assets/trading liabilities[1]	8,532	(8,532)	-	-
Financial investments: available-for-sale	-	-	55,514	(55,514)

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

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

	Reflected in profit or loss		Reflected in equity	
	Favourable changes US$000	**Unfavourable changes US$000**	**Favourable changes US$000**	**Unfavourable changes US$000**
At 30 June 2013				
Private equity investments..................................	**-**	**-**	**14,517**	**(14,517)**
Other derivatives...	**35**	**(35)**	**-**	**-**
Other portfolio	**8,274**	**(8,274)**	**74,157**	**(74,157)**
At 31 December 2012				
Private equity investments..................................	-	-	13,937	(13,937)
Other derivatives...	3	(3)	-	-
Other portfolio	8,529	(8,529)	41,477	(41,477)

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

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

In respect of private equity investments, in many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators. This may be determined with reference to multiples for comparable listed companies and includes discounts for marketability.

For other derivatives, principal assumptions concern the value to be attributed to future volatility of asset values and the future correlation between asset values.

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

12 Contingent liabilities, contractual commitments and guarantees

	At 30 June 2013 US$000	At 31 December 2012 US$000
Guarantees and other contingent liabilities		
Guarantees and irrevocable letters of credit pledged as collateral security	**11,403,423**	11,783,131
	11,403,423	11,783,131
Commitments		
Documentary credits and short-term trade-related transactions	**1,683,562**	1,537,103
Undrawn formal standby facilities, credit lines and other commitments to lend	**17,783,556**	18,469,876
	19,467,118	20,006,979

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. 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 2012*.

13 Legal proceedings and regulatory matters

The group is party to legal proceedings, investigations and regulatory matters in a number of jurisdictions arising out of its normal business operations.

No material adverse impact on the financial position of the group is expected to arise from these proceedings.

Regulatory and law enforcement investigations

In December 2012, HSBC Holdings plc (‘HSBC Holdings’), HSBC Bank Middle East Limited’s ultimate parent company, HSBC Bank USA, N.A. (‘HBUS’), and HSBC North America Holdings (‘HNAH’) entered into agreements to achieve a resolution with US and UK government agencies regarding past inadequate compliance with anti-money laundering (‘AML’), Bank Secrecy Act (BSA) and sanctions laws. Among other agreements, HSBC Holdings and HBUS entered into a five-year Deferred Prosecution Agreement (the ‘US DPA’) with the US Department of Justice (‘DOJ’), HSBC Holdings entered into a two-year Deferred Prosecution Agreement with the New York County District Attorney (‘DANY’), and HSBC Holdings consented to a cease and desist order with the Federal Reserve Board (‘FRB’). HSBC Holdings also entered into an Undertaking with the UK Financial Services Authority (now a Financial Conduct Authority (‘FCA’) Direction) to comply with certain forward-looking obligations with respect to anti-money laundering and sanctions requirements over a five-year term.

In addition, HBUS entered into a monetary penalty consent order with the US Department of the Treasury’s Financial Crimes Enforcement Network (‘FinCEN’) and a separate monetary penalty order with the Office of the Comptroller of the Currency (‘OCC’). HBUS also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC’s then most recent report of examination, imposing certain restrictions on HBUS directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HBUS entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance program.

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

Under these agreements, HSBC Holdings and HBUS will continue to cooperate fully with US and UK regulatory and law enforcement authorities and take further action to strengthen its compliance policies and procedures. Under its agreements with DOJ, the FCA, and the FRB, an independent corporate compliance monitor will evaluate the HSBC Group's progress in implementing its obligations under the relevant agreements. Michael Cherkasky has been selected as the independent monitor, and, on 1 July, 2013, the United States District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of the same.

Under these agreements, HSBC Holdings has certain obligations to ensure that entities in the HSBC Group, including HSBC Bank Middle East Limited and its subsidiaries, comply with certain requirements. Steps continue to be taken to implement ongoing obligations under the US DPA, FCA direction, and other settlement agreements.

The settlement with U.S. and U.K. authorities does not preclude private litigation relating to, among other things, the HSBC Group's compliance with applicable AML/ BSA and sanctions laws or other regulatory or law enforcement actions for AML/BSA or sanctions matters not covered by the various agreements.

The bank is currently co-operating with the Jersey Financial Services Commission (the "Commission") in respect of its enquiry into the bank's adherence to Jersey anti-money laundering requirements and international sanctions legislation.

14 Dividends

A first interim dividend for the financial year ending 31 December 2013 of US$65 million was declared by the Board of Directors on 2 May 2013. The dividend was paid on 15 May 2013.

15 Interim Report 2013 and statutory accounts

The information in this Interim Report 2013 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 2013 was approved by the Board of Directors on 1 August 2013. The statutory accounts for the year ended 31 December 2012 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 for the six months ended 30 June 2013 which comprise 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.

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 2013 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU.

Steven D. Hunt
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants
37 Esplanade
St Helier
Jersey
JE4 8WQ

2 August 2013

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 2 August 2013. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 2 August 2013 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.