HSBC Financial Services (Middle East) Limited

Financial statements

for the year ended 31 December 2015

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Financial statements
for the year ended 31 December 2015

Contents

HSBC Financial Services (Middle East) Limited

Director's Report

The Directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2015.

Activities

In 2015, HSBC Financial Services (Middle East) Limited ("the Company") continues to hold its banking license and as per management's decision in 2013 the equity brokerage activities have been rundown and the activities are currently being wound down.

Results for the year

The operations for the year 2015 resulted in a net loss of AED 1.3m (Net profit in 2014: AED 1.6m). The state of the Company's affairs is set out in the financial statements on pages 4 to 27.

Capital Remittance

The Company has received approval from UAE Central Bank for a capital remittance to its parent of AED 24m.

Directors of the Board

The Directors of the Company during the year and to the date of this report were as follows:

1	David Kotheimer	Chairman
2	Georges El-Hedery	Director
3	Mustafa Ramzi	Director
4	Gill Newman	Appointed as Director on 27 July 2015
5	Roger Winfield	Resigned as Director on 27 July 2015

Auditors

Following a tender process for the audit of HSBC Holdings plc and its subsidiaries in 2013, PricewaterhouseCoopers ('PwC') had been recommended to be appointed as auditors of the HSBC Group entities ('Group') effective for periods ending on or after 1 January 2015. PwC was appointed by the Board on 5 April 2015.

The shareholders of the company having agreed to dispense with the requirement to hold annual general meetings, the auditors, are deemed to be appointed, at fees to be agreed by the Directors.

D. C. Kotheimer

Mr. David Kotheimer
Chairman

21 MAR 2016

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Independent auditor's report to the shareholders of HSBC Financial Services (Middle East) Limited

Report on the financial statements

We have audited the accompanying financial statements of HSBC Financial Services (Middle East) Limited ("the Company"), which comprise the statement of financial position as at 31 December 2015, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The annual financial statements for the year ended 31 December 2014 were audited by another auditor who expressed an unqualified opinion in their report dated 25 March 2015.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

i) we have obtained all the information we considered necessary for the purposes of our audit;

ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii) the Company has maintained proper books of account;

iv) the financial information included in the report of the Directors is consistent with the books of account of the Company;

v) as disclosed in note 1 to the financial statements, the Company has not purchased or invested in any shares on its own behalf during the financial year ended 31 December 2015;

vi) note 16 to the financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the company has contravened during the financial year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015; and

viii) as disclosed in note 1 to the financial statements, the Company has not made any social contributions during the financial year ended 31 December 2015.

PricewaterhouseCoopers
Douglas O'Mahony
Registered Auditor Number 834
Dubai, United Arab Emirates
21 March 2016

HSBC Financial Services (Middle East) Limited

Statement of income
for the year ended 31 December 2015

	Notes	**2015**	2014
		AED000	AED000
Net Interest income	*6*	**48**	102
Net Fee (Expense)/Income	*7*	**(12)**	179
(Loss) from impairment Financial Investment	*11*	**(1,243)**	-
Other income		**30**	1,482
		--------	--------
Operating (loss)/income		**(1,177)**	1,763
Net General and administrative expenses	*8*	**(114)**	182
		--------	--------
(Loss)/Profit before tax		**(1,291)**	1,945
Tax expense	*9*	**-**	(389)
		--------	--------
(Loss)/Profit for the year		**(1,291)**	1,556
		======	======

The accompanying notes on pages 9 to 27 form an integral part of these financial statements.

The independent auditors’ report is set out on page 2.

HSBC Financial Services (Middle East) Limited

Statement of comprehensive income
for the year ended 31 December 2015

	2015	2014
	AED000	AED000
Net (loss)/profit for the year	**(1,291)**	1,556
Other comprehensive income	**-**	-
	--------	--------
Total comprehensive (loss)/income for the year	**(1,291)**	1,556
	=====	=====

The accompanying notes on pages 9 to 27 form an integral part of these financial statements.

The independent auditors' report is set out on page 2.

HSBC Financial Services (Middle East) Limited

Statement of financial position
As at 31 December 2015

	Notes	2015 AED000	2014 AED000
Assets			
Cash and bank balances	*10*	**75,841**	95,604
Investments	*11*	**-**	1,243
Other assets	*12*	**1,843**	1,842
Total assets		**77,684**	98,689
Liabilities			
Other liabilities	*13*	**416**	20,130
Total liabilities		**416**	20,130
Equity			
Share capital	*14*	**51,000**	51,000
Legal reserve	*15*	**25,500**	25,500
Retained earnings		**768**	2,059
Total equity		**77,268**	78,559
Total liabilities and equity		**77,684**	98,689

The accompanying notes on pages 9 to 27 form an integral part of these financial statements.

The independent auditors' report is set out on page 2.

These financial statements were approved by the Board of Directors on 2 MAR 2016 and signed on their behalf by:

David Kotheimer
Chairman

HSBC Financial Services (Middle East) Limited

Statement of cash flows
for the year ended 31 December 2015

	Note	**2015**	2014
		AED000	AED000
Operating activities			
(Loss)/Profit for the year before tax		**(1,291)**	1,945
Add: Impairment on investments		**1,243**	-
Operating (loss)/profit before working capital change		**(48)**	1,945
Change in other assets		**(1)**	638
Change in other liabilities		**(19,325)**	14,406
Net cash (used in) /generated from operations		**(19,374)**	16,989
Income tax paid		**(389)**	(14,804)
Net cash (used in) / generated from operating activities		**(19,763)**	2,185
Investing activities			
Movement in term deposits with bank maturing after 3 months		**10,283**	47,500
Net cash used in investing activities		**10,283**	47,500
Financing activities			
Dividend paid		**-**	(59,200)
Net cash used in financing activities		**-**	(59,200)
Net decrease in cash and cash equivalents		**(9,480)**	(9,515)
Cash and cash equivalents as at 1 January 2015		**27,821**	37,336
Cash and cash equivalents as at 31 December 2015	10	**18,341**	27,821
The Cash and cash equivalents as at 31 December consist of the following:			
Term deposits with bank maturing within 3 months		**10,283**	-
Balance in current and call accounts		**8,058**	27,821
		18,341	27,821

The accompanying notes on pages 9 to 27 form an integral part of these financial statements.

The independent auditors' report is set out on page

HSBC Financial Services (Middle East) Limited

Statement of changes in equity
for the year ended 31 December 2015

	Share capital AED000	Legal reserve AED000	Retained earnings AED000	Total AED000
At 1 January 2014	51,000	25,500	59,703	136,203
Total comprehensive income for the year	-	-	1,556	1,556
Dividend paid	-	-	(59,200)	(59,200)
At 31 December 2014	51,000	25,500	2,059	78,559
At 1 January 2015	**51,000**	**25,500**	**2,059**	**78,559**
Total comprehensive loss for the year	-	-	(1,291)	(1,291)
Dividend paid	-	-	-	-
At 31 December 2015	**51,000**	**25,500**	**768**	**77,268**

The accompanying notes on pages 9 to 27form an integral part of these financial statements.

The independent auditors' report is set out on page 2.

Notes to the financial statements
For the year ended 31 December 2015

1. Legal status and principal activities

HSBC Financial Services (Middle East) Limited ("the Company") was incorporated in Dubai, United Arab Emirates, with limited liability on 6 April 1975 under the terms of a decree issued by His Highness Sheikh Rashid Bin Saeed Al Maktoum, The Ruler of Dubai. With effect from 1 July 1995, the name of the Company was changed from Wardley Middle East Limited to HSBC Financial Services (Middle East) Limited ("the Company"). The immediate holding company is HSBC Bank Middle East Limited, Jersey ("the Parent"), and the ultimate parent company is HSBC Holdings plc, incorporated in the United Kingdom. The registered address of the Company is 1st Floor, Building No 5, Emaar Square, P. O. Box 502601, Dubai, UAE.

The Company has a Banking license from the Central Bank of UAE. The Company continues to hold its banking license and as per management's decision in 2013 the equity brokerage activities have been rundown and the activities are currently being wound down.

The Company has a dormant 100% subsidiary in the United Kingdom by the name of Shenfield Nominees Limited.

Company has not purchased or invested in any shares, on its own behalf during the financial year ended 31 December 2015. The company has not made any social contribution during the financial year ended 31 December 2015

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the standing interpretation committee of the International Accounting Standards Board ("IASB").

(b) Standards adopted during the year ended 31 December 2015

There were no new relevant standards applied during the year ended 31 December 2015.

(c) New standards and interpretations not yet adopted

A number of new standards and interpretations are not yet effective for the year ended 31 December 2015 and have not been early adopted in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

IFRS No. Title	Effective for annual period beginning on or after
IFRS 9	Financial Instruments 1 January 2018
IFRS 15	Revenue from Contracts with Customers 1 January 2017

Management do not expect those to have any material impact on Company's financial statements assuming changes to the present activities.

2. Basis of preparation *(continued)*

(d) Basis of measurement

These financial statements are prepared under the historical cost convention except for 'Available for sale' financial investments which are revalued at fair value at the reporting date.

(e) Functional and presentation currency

Items included in the financial statements of the Company are measured and presented in United Arab Emirates 'Dirhams' ('AED') which is the functional currency of the Company, rounded to the nearest thousand.

(f) Accounting for subsidiaries

The Company acts as a holding company for its subsidiary. These financial statements represent the results of operations and financial position of the Company only. In these financial statements the investment in the subsidiary are stated at cost less provision for impairment losses in accordance with IFRS 10 - Consolidated and Separate Financial Statements. Consolidated financial statements are not prepared on the basis that the Parent prepares and publishes consolidated financial statements.

(g) Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these financial statements are included in the relevant accounting policies.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in 'Interest income' and 'Interest expense' in the statement of income using the effective interest rates of the financial assets or financial liabilities to which they relate.

3. Significant accounting policies *(continued)*

a) Interest income and expense *(continued)*

The effective interest rate is the rate that discounts estimated future receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating effective interest rates, the Company estimates cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation includes all amounts paid or received by the Company that are integral part of the effective interest rate, including transaction costs and all other premiums and discounts.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

b) Fees and commissions

Fees and commissions which form an integral part of the effective interest rate of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in net interest income.

c) Dividend income

Dividend income is recognised when the right to receive the payment is established.

d) Receivables

Receivables arise on unsettled trades and are stated at amortised cost less impairment losses, if any.

e) Payables

Payables are stated at cost.

f) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset for the Company and a financial liability or equity instrument of another party. All assets and liabilities in the statement of financial position are financial instruments, except deferred tax assets, prepayments and shareholders' equity.

3. Significant accounting policies *(continued)*

f) Financial instruments *(continued)*

Classification

Financial instruments are categorised as follows:

Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Company provides money directly to the borrower with no intention of trading the receivable.

Held to maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity. Where the Company sells other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available for sale.

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or not classified as (a) loans and advances or (b) held-to-maturity investments.

Initial recognition

The Company recognises financial assets and liabilities on its statement for financial position on the date it becomes a party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities designated as fair value through profit or loss or available for sale assets are recognised.

Loans and advances are recognised on the day the asset is delivered to the counterparty.

Derecognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered. A financial liability is derecognised when it is extinguished. Loans and receivables are derecognised on the day the cash is received by the Company, or the loans are either sold or written off.

Measurement

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition all financial instruments to be fair valued through profit or loss and available for sale assets are measured at fair value, except any instrument that does not have a reliably measurable fair value. Such instruments are measured as set out in fair value measurement principles below.

3. Significant accounting policies *(continued)*

f) Financial instruments *(continued)*

Measurement *(continued)*

All held to maturity financial instruments and loans and advances for which the fair value has not been hedged are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

'Fair value' is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principle or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the fair value of financial instruments is based on quoted market prices in an active market for that instrument, a market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available, or if a market for a financial instrument is not active, the fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, discounted cash flow methods, comparison to similar instruments for which market observable prices exist.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of available for sale financial instruments are recognised in statement of comprehensive income, until the financial instrument is derecognised or impaired at which time the cumulative gain or loss previously recognised in statement of comprehensive income is recognised in the statement of income.

Impairment

Financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. Impairment loss is the difference between the net carrying value of an asset and its recoverable amount.

3. Significant accounting policies *(continued)*

f) Financial instruments *(continued)*

Offsetting *(continued)*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when the Company has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with central banks and other banks, Bank overdrafts, due from banks and other highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in the fair value, and are used by the Company in the management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

h) Foreign currencies

Foreign currency transactions are recorded at the rates of exchange ruling at the value dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the statement of financial position date. Any resultant gains and losses are recognised in the statement of income.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated into AED at the foreign exchange rates ruling at the dates at which fair values were determined.

i) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

j) Income tax expense

Income tax comprises current and deferred tax. Current and deferred tax are recognised in statement of income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies *(continued)*

j) Income tax expense *(continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority, and when a legal right to offset exists.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is possible that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

k) Assets held for sale

Non-current assets and disposal groups (including both the assets and liabilities of the disposal group) are classified as held for sale when their carrying amounts will be recovered principally through sale, they are available for sale in their present condition and their sale is highly probable.

Non-current assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell.

4. Financial risk management

a) Introduction and overview

The Company has exposure to the following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

This note presents information about the Company’s exposure to each of the above risks and the Company’s objective, policies and processes for measuring and managing risk.

4. Financial risk management *(continued)*

Risk management framework

The risk management framework is established by HSBC Holdings plc ('HSBC Group') which sets out the well-established risk governance and ownership structure to ensure oversight of, and accountability for, effective management of risk at regional, customer group and operating entity levels. However, the primary responsibility for managing risk rests with the Board of Directors of the Company. The Board of Directors has the responsibility to cascade the HSBC Group's risk management policies which are designed to support the formulation of risk appetite, guide employees and establish procedures for monitoring and controlling risk with timely and reliable reporting to the Board.

The HSBC Group regularly reviews and updates its risk management policies and systems to reflect changes in markets, products and emerging best practice which are then cascaded to the Company.

b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Company's loans and advances to customers and investment securities held by the Company. The Company has in place the HSBC Group standards, policies and procedures dedicated to monitor and manage risk from such activities.

Management of credit risk

The Company's credit risk exposures are now largely limited to bank balances, which are all with HSBC Bank Middle East

4. Financial risk management *(continued)*

c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. Market risk arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes.

The Company is not currently exposed to any significant market risk.

d) Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The primary source of funding of the Company is through financing arrangements with HSBC Group entities.

The following table represents the contractual maturity of the financial liabilities of the Company at the reporting date, based on the contractual repayment arrangements determined on the basis of the remaining period at the reporting date to the final maturity dates.

At 31 December 2015	**Carrying value AED000**	**Within 3 months AED000**	**No fixed maturity AED000**	**Total AED000**
Other liabilities	**416**	**416**	**-**	**416**
Total	**416**	**416**	**-**	**416**

At 31 December 2014	Carrying value AED000	Within 3 months AED000	No fixed maturity AED000	Total AED000
Other liabilities	20,130	20,130	-	20,130
Total	20,130	20,130	-	20,130

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

5. Capital management

The Company's capital management approach is driven by its strategy and organizational requirements, taking into account the regulatory and commercial environment in which it operates. It is the Company's policy, in line with its HSBC Group requirements, to maintain a strong capital base to support the development of its business and to meet the regulatory capital requirements at all times. It also maintains a strong discipline over its investment decisions and where it allocates its capital, seeking to ensure that returns on investment are appropriate after taking account of capital costs. It is the responsibility of the local management of the Company to manage its own capital required to support planned business growth and meet local regulatory requirements.

As part of the HSBC Group's Capital Management Framework, capital generated in excess of planned requirements is generally returned to the Parent, normally by way of dividends.

The Company's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

In implementing current capital requirements, the Company calculates the Capital Adequacy ratio in accordance with the guidelines issued by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets.

5. Capital management *(continued)*

The Company's regulatory Capital Adequacy Ratio (BASEL II), set by the Central Bank of the UAE at a minimum level of 12%, is analyzed as follows:

	2015	2014
	AED000	AED000
	(Basel II)	(Basel II)
Tier 1 capital		
Share capital	**51,000**	51,000
Legal reserve	**25,500**	25,500
Retained earnings	**2,059**	503
Current year financial loss	**(1,291)**	-
Total	**77,268**	77,003
Tier 2 capital	**-**	-
Total base capital (a)	**77,268**	77,003
Risk weighted assets:		
Credit risk	**17,012**	22,829
Market risk	**-**	-
Operational risk	**159,340**	201,815
Risk weighted assets (b)	**176,352**	224,644
Capital adequacy ratio (%) [(a)/(b)*100]	**43.81%**	34.28%

The Company has complied with all externally imposed capital requirements throughout the year.

6. Interest income

	2015	2014
	AED000	AED000
Term deposits	**48**	102
	-----	-----
	48	102
	===	===

Term Deposits are placed with HSBC Bank Middle East Limited – UAE Operations.

- USD 2.8m with interest rates ranging from 15.56% to 22.09%. The deposit is renewable every 3 months.
- AED 57.5m with interest rate of 5%. The deposit is renewable every 6 months.

7. Net Fee (Expense)/Income

	2015	2014
	AED000	AED000
Intercompany income:		
-HSBC Bank Plc	**-**	165
Third party net fee (expense)/income	**(12)**	14
	-------	-------
	(12)	179
	=====	=====

8. Net General and administrative expenses

	2015	2014
	AED000	AED000
Intercompany cost recharges - net of reimbursements	**-**	273
Share based payment/(recovery)	**45**	(539)
Others	**69**	84
	-------	-------
	114	(182)
	=====	=====

9. Tax expense

Provision for tax expense is made at the rate of 20% of the taxable profit, in accordance with regulations issued in the Emirate of Dubai.

	2015	2014
	AED000	AED000
(Loss)/Profit before tax	**(1,291)**	1,945
Total taxable loss	**(1,291)**	1,945
Tax for the year at the applicable tax rate of 20%	**-**	389
	-	389

10. Cash and bank balances

	2015	2014
	AED000	AED000
Balances at bank (refer note 16)		
- Settlement accounts	**-**	8
- Call accounts	**2,941**	3,865
- Current account	**5,117**	23,948
- Term deposit maturing within three months	**10,283**	-
- Term deposit maturing after three months	**57,500**	67,783
	75,841	95,604

11. Investments

	2015	2014
	AED000	AED000
Available for sale		
Investment in Havenvest Private Equity Middle East Limited	**-**	1,243
Investment in subsidiary		
Investment in subsidiaries	**-**	-
	-	1,243

11. Investments *(continued)*

Further to the management buy-out ("MBO") agreement in 2011, on 22 March 2012, the Company entered into a sale and purchase agreement ("SPA") with Havenvest Partners Limited ("HPL") wherein the Company agreed to sell 80.1% of its investment in the fully owned subsidiary HSBC Private Equity Middle East Limited (subsequently renamed to Havenvest Private Equity Middle East Limited on 18 October 2012 and re-domiciled to the Dubai International Financial Centre) ("HPE") should the terms of the SPA be met including those on or before the completion date.

The transaction was completed on 10 December 2012 and 80.1% of shares in HPE, amounting to AED 5,001 thousand (USD 1,362 thousand), were transferred to HPL. Subsequent to the completion date of the SPA on 10 December 2012, the residual investment in HPE has been classified as an available for sale investment

The carrying value of the residual investment in HPE previously carried at AED 1,243,000 was reassessed and impaired on 24 March 2015 and has been written down to USD 1 due to concerns over Havenvest's economic viability.

Investment in subsidiaries

The company's interest in a subsidiary is carried at AED 373 and is as follows:

The Company's interest, held directly or indirectly, in subsidiaries is as follows:

Name	**Status**	**31 Dec 2014 % Holding**	**31 Dec 2015 % Holding**	**Incorporated in**
Shenfield Nominees Limited	Limited liability company - Dormant	100	100	United Kingdom

12. Other assets

	2015 AED000	2014 AED000
Inter-company receivables (refer note 16)	**7**	6
Others	**1,836**	1,836
	-----------	-----------
	1,843	1,842
	=======	=======

13. Other liabilities

	2015 AED000	2014 AED000
Tax liability (refer note 9)	**-**	389
Settlement accounts	**388**	19,474
Others	**28**	267
	416	20,130

Settlement accounts relate to amounts payable to customers in relation to redemption of investments held in mutual funds.

14. Share capital

	2015 AED000	2014 AED000
Authorised, issued and fully paid up:		
51,000 ordinary shares of AED 1,000 each (2014: 51,000 ordinary shares of AED 1,000 each)	**51,000**	51,000

As at 31 December 2015, 51,000 (2014: 51,000) ordinary shares of AED 1,000 each were held by the Parent.

On 17 September 2015, management of the Company applied to the UAE Central Bank for an interim reduction of the Company's paid up capital to AED 40 million and the legal reserve to AED 12.5 million. On 20 December 2015, the UAE Central Bank approved the request for the capital reduction.

15. Legal reserve

In accordance with the provisions of Article 82 of Union law No 10 of 1980 and UAE Federal Law No. 2 of 2015 (as amended), a minimum of 10% of the net income for the year is required to be transferred to a legal reserve until this reserve is equal to 50% of the paid up capital of the Company. No transfer was effected in 2015 since the company has already reached the maximum limit. This legal reserve is not currently available for distribution.

Also refer to note 14 above regarding the reduction of legal reserves AED 25.5 million to AED 12.5 million

16. Transactions with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Company, related parties, as defined in International Accounting Standard No 24, include major shareholders of the Company, directors and officers of the Company and companies of whom they are principal owners and key management personnel. Banking transactions are entered into with the related parties on agreed terms and conditions approved by the Management.

	2015	2014
Transactions during the year	**AED000**	AED000
Interest income from HSBC Bank Middle East Limited (note 6)	**48**	102
Fee and commission (expense) / income (note 7)	**-**	165
Charges paid for services	**-**	273
Other Intercompany income	**41**	-

Balance as at 31 December	**2015**	2014
	AED000	AED000
Included in cash and bank balances:		
Balances held with HSBC Bank Middle East Limited – UAE Operations	**75,841**	95,604
	75,841	95,604

	2015	2014
	AED000	AED000
Included in other assets recoverable from:		
HSBC Bank Middle East Ltd –UAE Operations	**7**	6
	7	6
Included in other liabilities payable to:		
HSBC Bank Middle East Ltd –UAE Operations	**-**	266
	-	266

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. All key management personnel expenses are borne by HSBC Bank Middle East Limited – UAE Operations, a related party and are not recharged to the Company.

17. Fair value

The management believes that the carrying value of financial assets and liabilities in the statement of financial position represents a reasonable approximate of their fair values.

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable input, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

At 31 December 2015	**Level 3 AED000**	**Total AED000**
Available for sale investments	**-**	**-**
Total	**-**	**-**

At 31 December 2014	Level 3 AED000	Total AED000
Available for sale investments	1,243	1,243
Total	1,243	1,243

Financial instruments not measured at fair value

The financial instruments not measured at fair value through profit or loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

Fair value hierarchy (continued)

At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED000	**AED000**	**AED000**	**AED000**
Financial assets				
Other assets	**-**	**-**	**1,843**	**1,843**
Total as at 31 December 2015	**-**	**-**	**1,843**	**1,843**

At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED000	**AED000**	**AED000**	**AED000**
1 Financial Liabilities				
Other liabilities	**-**	**-**	**416**	**416**
Total as at 31 December 2015	**-**	**-**	**416**	**416**

At 31 December 2014	Level 1	Level 2	Level 3	Total
	AED000	AED000	AED000	AED000
Financial assets				
Other assets	-	-	1,842	1,842
Total as at 31 December 2014	-	-	1,842	1,842

At 31 December 2014	Level 1	Level 2	Level 3	Total
	AED000	AED000	AED000	AED000
Financial liabilities				
Other liabilities	-	-	20,130	20,130
Total as at 31 December 2014	-	-	20,130	20,130

18. Contingent liabilities and commitments

Contingent liabilities

As at 31 December 2015, there are no known legal proceedings or other contingent liabilities against the Company (2014: Nil).

Commitments

The Company had no significant capital commitments as at 31 December 2015 (2014: Nil).

19. Events after the reporting date

The Company has received approval from HBME Board of the Directors on 8 February 2016, post the approval from the UAE Central Bank for a capital remittance to its parent of AED 24m.

20. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these financial statements.