

**HSBC Financial Services (Middle East) Limited**  
**Financial statements**  
*for the year ended 31 December 2016*

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*for the year ended 31 December 2016*

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# HSBC Financial Services (Middle East) Limited

## Directors' report

The Directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2016.

## Activities

In 2016, HSBC Financial Services (Middle East) Limited ("the Company") continues to hold its banking license and the management intends to liquidate the Company in 2017.

## Results for the year

The operations for the year 2016 resulted in a net loss of AED 1.8m (Net loss in 2015: AED 1.3m). The state of the Company's affairs is set out in the financial statements on pages 5 to 27.

## Capital remittance

The Company had received approval from UAE Central Bank in 2015 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:

David Kotheimer	Chairman
Georges El-Hedery	Resigned as Director on 13 June 2016
Mustafa Ramzi	Resigned as Director on 30 May 2016
Gill Newman	Director
Nick Reed	Appointed as Director on 13 June 2016
Gilford Nakajima	Appointed as Director on 13 June 2016

## Auditors

PricewaterhouseCoopers have been reappointed as auditors.

Mr. David Kotheimer  
Chairman

14 MAR 2017



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

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Financial Services (Middle East) Limited ("the Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

#### **What we have audited**

The Company's financial statements comprise:

- the statement of income for the year ended 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of financial position as at 31 December 2016;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section of our report*.

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

#### **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements of a company in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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#### *Emphasis of Matter*

We draw attention to Note 1 to these financial statements, which refers to the intention of the management of the Company to liquidate the remaining assets of the Company subsequent to the balance sheet date, subject to approval from the Company's regulator. These financial statements have therefore been prepared using a liquidation basis of accounting. Our opinion is not qualified in respect of this matter.

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PricewaterhouseCoopers (Dubai Company), License no. 102451  
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates  
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, [www.pwc.com/me](http://www.pwc.com/me)

Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy



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

### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.





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

**Report on other regulatory requirements**

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

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the financial statements 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 2016;
- (vi) note 16 to the financial statements discloses material related party transactions and the terms under which they were conducted;
- (vii) as disclosed in note 1 to the financial statements, the Company has not made any social contributions during the financial year ended 31 December 2016; and
- (viii) 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 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

**PricewaterhouseCoopers**

Douglas O' Mahony  
Registered Auditor number 834  
Dubai, United Arab Emirates  
14 March 2017

PRICEWATERHOUSECOOPERS  
Initialed for Identification purposes only

# HSBC Financial Services (Middle East) Limited

## Statement of income

for the year ended 31 December 2016

	<i>Notes</i>	<b>2016</b> <b>AED000</b>	2015 AED000
Interest income	6	<b>59</b>	48
Fee expense	7	<b>(1)</b>	(12)
Loss from impairment of financial investment	11	-	(1,243)
Other income	16	<b>112</b>	30
Operating income/(loss)		<b>170</b>	(1,177)
Other credit risk provisions	12	<b>(1,836)</b>	-
General and administrative expenses	8	<b>(84)</b>	(114)
Loss before tax		<b>(1,750)</b>	(1,291)
Tax expense	9	-	-
Loss for the year		<b>(1,750)</b>	(1,291)

The accompanying notes on pages 10 to 27 form an integral part of these financial statements.

The independent auditor's report is set out on page 2.

**HSBC Financial Services (Middle East) Limited**  
**Statement of comprehensive income**  
*for the year ended 31 December 2016*

	<b>2016</b>	2015
	<b>AED000</b>	AED000
Net loss for the year	<b>(1,750)</b>	(1,291)
Other comprehensive income	-	-
	-----	-----
<b>Total comprehensive loss for the year</b>	<b>(1,750)</b>	(1,291)
	=====	=====

The accompanying notes on pages 10 to 27 form an integral part of these financial statements.

The independent auditor's report is set out on page 2.



**HSBC Financial Services (Middle East) Limited**  
**Statement of financial position**  
*As at 31 December 2016*

	Notes	2016 AED000	2015 AED000
<b>Assets</b>			
Cash and bank balances	10	75,532	75,841
Investments	11	-	-
Other assets	12	30	1,843
		-----	-----
<b>Total assets</b>		<b>75,562</b>	<b>77,684</b>
		=====	=====
<b>Liabilities</b>			
Other liabilities	13	44	416
		-----	-----
<b>Total liabilities</b>		<b>44</b>	<b>416</b>
		-----	-----
<b>Equity</b>			
Share capital	14	51,000	51,000
Legal reserve	15	25,500	25,500
(Accumulated losses)/Retained earnings		(982)	768
		-----	-----
<b>Total equity</b>		<b>75,518</b>	<b>77,268</b>
		-----	-----
<b>Total liabilities and equity</b>		<b>75,562</b>	<b>77,684</b>
		=====	=====

The accompanying notes on pages 10 to 27 form an integral part of these financial statements.

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These financial statements were approved by the Board of Directors on 14 MAR 2017 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 2016

	Notes	2016 AED000	2015 AED000
<b>Operating activities</b>			
Loss for the year before tax		(1,750)	(1,291)
Add: Impairment on investments		-	1,243
Add: Other credit risk provisions		1,836	-
		-----	-----
<b>Operating profit/(loss) before working capital changes</b>		<b>86</b>	<b>(48)</b>
Change in other assets		(23)	(1)
Change in other liabilities		(372)	(19,325)
		-----	-----
<b>Net cash used in operating activities</b>		<b>(309)</b>	<b>(19,374)</b>
Income tax paid		-	(389)
		-----	-----
<b>Net cash used in operating activities</b>		<b>(309)</b>	<b>(19,763)</b>
		-----	-----
<b>Investing activities</b>			
Movement in term deposits with bank maturing after three months		-	10,283
		-----	-----
<b>Net cash used in investing activities</b>		<b>-</b>	<b>10,283</b>
		-----	-----
<b>Financing activities</b>			
Dividend paid		-	-
		-----	-----
<b>Net cash used in financing activities</b>		<b>-</b>	<b>-</b>
		-----	-----
Net decrease in cash and cash equivalents		(309)	(9,480)
Cash and cash equivalents as at 1 January		18,341	27,821
		-----	-----
<b>Cash and cash equivalents as at 31 December</b>		<b>18,032</b>	<b>18,341</b>
		=====	=====

The cash and cash equivalents as at 31 December consist of the following:

Term deposits with bank maturing within three months	10	10,283	10,283
Balance in current and call accounts	10	7,749	8,058
		-----	-----
		<b>18,032</b>	<b>18,341</b>
		=====	=====

The accompanying notes on pages 10 to 27 form an integral part of these financial statements.

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# HSBC Financial Services (Middle East) Limited

## Statement of changes in equity

for the year ended 31 December 2016

	Share capital AED000	Legal reserve AED000	Retained earnings AED000	Total AED000
At 1 January 2015	51,000	25,500	2,059	78,559
Total comprehensive loss for the year	-	-	(1,291)	(1,291)
	-----	-----	-----	-----
At 31 December 2015	51,000	25,500	768	77,268
	=====	=====	=====	=====
<b>At 1 January 2016</b>	<b>51,000</b>	<b>25,500</b>	<b>768</b>	<b>77,268</b>
Total comprehensive loss for the year	-	-	(1,750)	(1,750)
	-----	-----	-----	-----
<b>At 31 December 2016</b>	<b>51,000</b>	<b>25,500</b>	<b>(982)</b>	<b>75,518</b>
	=====	=====	=====	=====

The accompanying notes on pages 10 to 27 form an integral part of these financial statements.

The independent auditor's report is set out on page 2.

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **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 (“the Parent”), and the ultimate parent company is HSBC Holdings plc, incorporated in the United Kingdom. Effective 30 June 2016, the Parent transferred its place of incorporation and head office from Jersey, Channels Islands, where it was regulated by Jersey Financial Services Commission to Dubai International Financial Centre, in the United Arab Emirates, under a category 1 license issued by the Dubai Financial Services Authority (‘DFSA’). The registered address of the Company is 3rd Floor, HSBC Bank Middle East Limited Building, Al Souq Road, P. O. Box 4604, Dubai, UAE.

The Company has a banking license from the Central Bank of UAE. The Company continues to hold its banking license and the management intends to liquidate the Company in 2017.

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

The Company has not purchased or invested in any shares, on its own behalf during the financial year ended 31 December 2016. The Company has not made any social contributions during the financial year ended 31 December 2016.

### **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 2016**

There were no new relevant standards applied during the year ended 31 December 2016.

#### **(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 2016 and have not been early adopted in preparing these financial statements. Those which may be relevant to the Company are set out below.

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

Management do not expect these to have any material impact on the Company's financial statements assuming no changes to the present activities.

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **2. Basis of preparation** *(continued)*

#### **(d) Basis of measurement**

The financial statements of the Company have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention.

The directors of the Company intend to liquidate the Company in 2017. Consequently, these financial statements have been prepared on the liquidation basis of accounting. For the year ended 31 December 2015, the Company prepared the financial statements on the going concern basis. Under the liquidation basis of accounting, the Company measures its assets based on their net realisable value and its liabilities based on the net settlement amounts. The change in the method of accounting did not result in any significant adjustment from those under the going concern basis of accounting.

#### **(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 is 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.

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **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 prepayments and shareholders' equity.



# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **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.

*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.

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **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 and 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.

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **3. Significant accounting policies (continued)**

#### **f) Financial instruments (continued)**

##### ***Offsetting***

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) Share based payments**

Shares in HSBC Holdings plc are awarded to employees in certain cases. Equity-settled share-based payment arrangements entitle employees to receive equity instruments of HSBC.

The cost of equity-settled share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to 'Other reserve'. The vesting period is the period during which all the specified vesting conditions of the arrangement are to be satisfied. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **3. Significant accounting policies** *(continued)*

#### **j) Share based payments** *(continued)*

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions of the award. Vesting conditions include service conditions and performance conditions; any other features of a share-based payment arrangement are non-vesting conditions. Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other vesting conditions are satisfied.

#### **k) 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.

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.

#### **l) 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.

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **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.

#### ***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 Limited - UAE Operations.

#### **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.

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 4. Financial risk management (continued)

#### 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 2016	Carrying value AED000	Within 3 months AED000	No fixed maturity AED000	Total AED000
Other liabilities	44	44	-	44
	-----	-----	-----	-----
<b>Total</b>	<b>44</b>	<b>44</b>	<b>-</b>	<b>44</b>
	=====	=====	=====	=====
At 31 December 2015	Carrying value AED000	Within 3 months AED000	No fixed maturity AED000	Total AED000
Other liabilities	416	416	-	416
	-----	-----	-----	-----
<b>Total</b>	<b>416</b>	<b>416</b>	<b>-</b>	<b>416</b>
	=====	=====	=====	=====



# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **4. Financial risk management** *(continued)*

#### **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 organisational 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.

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 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 analysed as follows:

	2016	2015
	AED000	AED000
	(Basel II)	(Basel II)
<b>Tier 1 capital</b>		
Share capital	51,000	51,000
Legal reserve	25,500	25,500
Retained earnings	768	2,059
Current year financial loss	(1,750)	(1,291)
	-----	-----
Total	75,518	77,268
	=====	=====
<b>Tier 2 capital</b>	-	-
	-----	-----
<b>Total base capital (a)</b>	75,518	77,268
	=====	=====
<b>Risk weighted assets:</b>		
Credit risk	32,389	17,012
Market risk	-	-
Operational risk	64,966	159,340
	-----	-----
<b>Risk weighted assets (b)</b>	97,355	176,352
	=====	=====
<b>Capital adequacy ratio (%)</b>	77.57%	43.81%
<b>[(a)/(b)*100]</b>		

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

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 6. Interest income

	2016 AED000	2015 AED000
Term deposits	59 =====	48 =====

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

- USD 2.8m with interest rates ranging from 0.27% to 0.30% per annum. The deposit is renewable every 3 months.
- AED 57.5m with interest rate of 0.5% per annum. The deposit is renewable every 6 months.

### 7. Fee expense

	2016 AED000	2015 AED000
Fee expense	(1) =====	(12) =====

### 8. General and administrative expenses

	2016 AED000	2015 AED000
Share based payment	-	(45)
Others	(84) -----	(69) -----
	(84) =====	(114) =====

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 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.

	2016 AED000	2015 AED000
Loss before tax	(1,750)	(1,291)
	-----	-----
Total taxable loss	(1,750)	(1,291)
	=====	=====

No tax applicable for the year since the Company had a taxable loss.

### 10. Cash and bank balances

	2016 AED000	2015 AED000
Balances at bank (refer note 16)		
- Call accounts	-	2,941
- Current account	7,749	5,117
- Term deposit maturing within three months	10,283	10,283
- Term deposit maturing after three months	57,500	57,500
	-----	-----
	75,532	75,841
	=====	=====

### 11. Investments

The carrying value of the investment in Havenvest Private Equity Middle East Limited (HPE) previously carried at AED 1,243 thousand was reassessed and impaired on 24 March 2015 and had been written down to USD 1. The amount of USD 1 has been received in 2016 and the Company no longer has this investment on its books.

#### *Investment in subsidiaries*

The Company's interest, held directly or indirectly, in a subsidiary is carried at AED 373 and is as follows:

Name	Status	31 Dec 2015 % Holding	31 Dec 2016 % Holding	Incorporated in
Shenfield Nominees Limited	Limited liability company - Dormant	100	100	United Kingdom

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 12. Other assets

	2016 AED000	2015 AED000
Inter-company receivables (refer note 16)	7	7
Prepayments	23	-
Others (net of other credit risk provisions)	-	1,836
	-----	-----
	30	1,843
	=====	=====

Others relate to the receivable from HPE (AED 1,836 thousand) which was completely written off during the year and is included within other credit risk provisions.

### 13. Other liabilities

	2016 AED000	2015 AED000
Settlement accounts	-	388
Others	44	28
	-----	-----
	44	416
	=====	=====

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

### 14. Share capital

	2016 AED000	2015 AED000
<i>Authorised, issued and fully paid up:</i>		
51,000 ordinary shares of AED 1,000 each		
(2016: 51,000 ordinary shares of AED 1,000 each)	51,000	51,000
	=====	=====

As at 31 December 2016, 51,000 (2015: 51,000) ordinary shares of AED 1,000 each were held by the Parent.

The Company had received approval from the Central Bank of the UAE in 2015 for the reduction of its capital to AED 40m and legal reserve to AED 12.5m.

### 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 2016 since the Company has already reached the maximum limit. This legal reserve is not currently available for distribution.

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 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.

	2016 AED000	2015 AED000
<b>Transactions during the year</b>		
Interest income from HSBC Bank Middle East Limited – UAE Operations (note 6)	59	48
Fee expense to HBME Kuwait (note 7)	(1)	-
Other intercompany income	112	30
<b>Balance as at 31 December</b>	<b>2016 AED000</b>	<b>2015 AED000</b>
<b>Included in cash and bank balances:</b>		
Balances held with HSBC Bank Middle East Limited – UAE Operations	75,532	75,841
	=====	=====
<b>Included in other assets:</b>		
Balances held with HSBC Bank Middle East Limited – UAE Operations	7	7
	=====	=====

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.



# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 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.

<b>At 31 December 2016</b>	<b>Level 3 AED000</b>	<b>Total AED000</b>
<b>Available for sale investments</b>	-	-
	-----	-----
<b>Total</b>	-	-
	=====	=====
 At 31 December 2015	 Level 3	 Total
	AED000	AED000
Available for sale investments	-	-
	-----	-----
Total	-	-
	=====	=====

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2016

### 17. Fair value (continued)

#### 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

At 31 December 2016	Level 1 AED000	Level 2 AED000	Level 3 AED000	Total AED000
<b>Financial assets</b>				
Other assets	-	-	30	30
	-----	-----	-----	-----
<b>Total as at 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>30</b>	<b>30</b>
	=====	=====	=====	=====

At 31 December 2016	Level 1 AED000	Level 2 AED000	Level 3 AED000	Total AED000
<b>Financial liabilities</b>				
Other liabilities	-	-	44	44
	-----	-----	-----	-----
<b>Total as at 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>44</b>
	=====	=====	=====	=====

At 31 December 2015	Level 1 AED000	Level 2 AED000	Level 3 AED000	Total AED000
<b>Financial assets</b>				
Other assets	-	-	1,843	1,843
	-----	-----	-----	-----
<b>Total as at 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>1,843</b>	<b>1,843</b>
	=====	=====	=====	=====

At 31 December 2015	Level 1 AED000	Level 2 AED000	Level 3 AED000	Total AED000
<b>Financial liabilities</b>				
Other liabilities	-	-	416	416
	-----	-----	-----	-----
<b>Total as at 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>416</b>	<b>416</b>
	=====	=====	=====	=====

# **HSBC Financial Services (Middle East) Limited**

## **Notes to the financial statements**

*for the year ended 31 December 2016*

### **18. Contingent liabilities and commitments**

#### ***Contingent liabilities***

As at 31 December 2016, there are no known legal proceedings or other contingent liabilities against the Company (2015: Nil).

#### ***Commitments***

The Company does not have any significant capital commitments as at 31 December 2016 (2015: Nil).

### **19. Comparative figures**

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