HSBC Financial Services (Middle East) Limited

Financial statements

for the year ended 31 December 2017

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Financial statements
for the year ended 31 December 2017

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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 2017.

Activities

In 2017, HSBC Financial Services (Middle East) Limited ("the Company") continues to hold its banking license and the management has approved the liquidation of the Company and is awaiting approval from the Ruler's Court in 2018.

Results for the year

The operations for the year 2017 resulted in a net profit of AED 5 thousand (Net loss in 2016: (AED 1.8m)). The state of the Company's affairs is set out in the financial statements on pages 5 to 27.

Capital remittance

The Company will request approval from UAE Central Bank for a capital remittance to HSBC Bank Middle East Limited, its Parent once approval has been received from the Ruler's Court.

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
Gill Newman	Director
Nick Reed	Director
Gilford Nakajima	Director

Auditors

PricewaterhouseCoopers have been reappointed as auditors.

D. C. Kotheimer

Mr. David Kotheimer
Chairman

20 MAR 2018

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

Report on the audit of the financial statements

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 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 Dubai Ruler's Court. These financial statements have therefore been prepared using a liquidation basis of accounting. Our opinion is not qualified in respect of this matter.

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

Other information

Management is responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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.

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

Auditor's responsibilities for the audit of the financial statements (continued)

- 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.

Report on other legal and 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 Directors' report 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 2017;
(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 2017; 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 2017 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
20 March 2018

Douglas O' Mahony
Registered Auditor Number 834

Place: Dubai, United Arab Emirates

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Dubai, U.A.E.
PricewaterhouseCoopers

HSBC Financial Services (Middle East) Limited
Income Statement
for the year ended 31 December 2017

	Notes	**2017 AED000**	2016 AED000
Interest income	*6*	**60**	59
Fee expense	*7*	**-**	(1)
Other income	*16*	**6**	112
		--------	--------
Operating income		**66**	170
Other credit risk provisions		**-**	(1,836)
General and administrative expenses	*8*	**(60)**	(84)
		--------	--------
Profit/(loss) before tax		**6**	(1,750)
Tax expense	*9*	**(1)**	-
		--------	--------
Profit/(loss) for the year		**5**	(1,750)
		======	======

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 2017

	2017	2016
	AED000	AED000
Net profit/(loss) for the year	**5**	(1,750)
Other comprehensive income	**-**	-
	-----------	-----------
Total comprehensive income/(loss) for the year	**5**	(1,750)
	=======	=======

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 2017

	Notes	2017 AED000	2016 AED000
Assets			
Cash and bank balances	*10*	**75,552**	75,532
Investments	*11*	**-**	-
Other assets	*12*	**8**	30
Total assets		**75,560**	75,562
Liabilities			
Other liabilities	*13*	**37**	44
Total liabilities		**37**	44
Equity			
Share capital	*14*	**51,000**	51,000
Legal reserve	*15*	**25,500**	25,500
(Accumulated losses)		**(977)**	(982)
Total equity		**75,523**	75,518
Total liabilities and equity		**75,560**	75,562

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.

These financial statements were approved by the Board of Directors on 20 MAR 2018 and signed on their behalf by:

D C Kotheimer

David Kotheimer
Chairman

HSBC Financial Services (Middle East) Limited

Statement of cash flows

for the year ended 31 December 2017

	Notes	2017 AED000	2016 AED000
Operating activities			
Profit/(loss) for the year before tax		**6**	(1,750)
Add: Other credit risk provisions		**-**	1,836
Operating profit before working capital changes		**6**	86
Change in other assets		**22**	(23)
Change in other liabilities		**(8)**	(372)
Net cash generated from/(used) in operating activities		**20**	(309)
Investing activities			
Net cash used in investing activities		**-**	-
Financing activities			
Net cash used in financing activities		**-**	-
Net increase/(decrease) in cash and cash equivalents		**20**	(309)
Cash and cash equivalents as at 1 January		**18,032**	18,341
Cash and cash equivalents as at 31 December		**18,052**	18,032

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

	Notes	2017 AED000	2016 AED000
Term deposits with bank maturing within three months	*10*	**10,283**	10,283
Balance in current and call accounts	*10*	**7,769**	7,749
		18,052	18,032

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 2017

	Share capital AED000	Legal reserve AED000	Retained earnings AED000	Total AED000
At 1 January 2016	51,000	25,500	768	77,268
Total loss for the year	-	-	(1,750)	(1,750)
	---------	---------	---------	---------
At 31 December 2016	51,000	25,500	(982)	75,518
	=====	=====	=====	======
At 1 January 2017	**51,000**	**25,500**	**(982)**	**75,518**
Total Profit for the year	-	-	5	5
	---------	---------	---------	---------
At 31 December 2017	**51,000**	**25,500**	**(977)**	**75,523**
	=====	=====	=====	======

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.

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. 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 subject to legal approval from the Dubai Ruler's Court.

The Company has not purchased or invested in any shares, on its own behalf during the financial year ended 31 December 2017. The Company has not made any social contributions during the financial year ended 31 December 2017.

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 2017

There were no new relevant standards applied during the year ended 31 December 2017.

(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 2017 and have not been early adopted in preparing these financial statements. Those which may be relevant to the Company are set out below.

IFRS 9 'Financial Instruments' 1 January 2018

In July 2016, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Transition

The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives. For the financial statements of the Company, adoption is expected to reduce net assets at 1 January 2018 by AED Nil due to impairment reducing net assets by AED Nil.

2. Basis of preparation *(continued)*

(c) New standards and interpretations not yet adopted *(continued)*

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' and it is effective for annual periods beginning on or after 1 January 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The Company will adopt the standard on its mandatory effective date, and the standard will be applied on a modified retrospective basis, recognising the cumulative effect, if any, of initially applying the standard as an adjustment to the opening balance of retained earnings. The Company has assessed the impact of IFRS 15 and expects that the standard will have no significant effect, when applied, on the financial statements of the Company.

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Company has assessed the impact of IFRS 16 and expects them to be Nil.

(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 directors of the Company intend to liquidate the Company in 2018. Consequently, these financial statements have been prepared on the liquidation basis of accounting. 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.

(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) 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 income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

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

Fee income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities).

Fee income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees).

c) Dividend income

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

d) Receivables

Receivables are stated at the net realisable value.

e) Payables

Payables are stated at the net settlement value.

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.

3. Significant accounting policies *(continued)*

f) Financial instruments *(continued)*

Classification

Financial instruments are those non-derivative financial assets that are designated as available for sale or loans and advances or held-to-maturity investments.

Initial recognition

The Company recognises financial assets and liabilities on its statement of 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 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 income statement.

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

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.

g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with 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 income statement.

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.

3. Significant accounting policies *(continued)*

k) Income tax expense

Income tax comprises current and deferred tax. Current and deferred tax are recognised in the income statement 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.

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.

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 2017	**Carrying value AED000**	**Within 3 months AED000**	**No fixed maturity AED000**	**Total AED000**
Other liabilities	**37**	**37**	**-**	**37**
Total	**37**	**37**	**-**	**37**

At 31 December 2016	Carrying value AED000	Within 3 months AED000	No fixed maturity AED000	Total AED000
Other liabilities	44	44	-	44
Total	44	44	-	44

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.

5. Capital management *(continued)*

The Company's regulatory Capital Adequacy Ratio (BASEL III) (BASEL II in 2016), set by the Central Bank of the UAE at a minimum level of 11.75% (2016: 12%), (including the capital conservation buffer requirement), is analysed as follows:

Unaudited	2017	2016
	AED000	AED000
	(Basel III)	(Basel II)
Tier 1 capital		
Share capital	**51,000**	51,000
Legal reserve	**25,500**	25,500
(Accumulated losses)/Retained earnings	**(982)**	768
Current year financial loss	**-**	(1,750)
Total	**75,518**	75,518
Tier 2 capital	**-**	-
Total base capital (a)	**75,518**	75,518
Risk weighted assets:		
Credit risk	**32,368**	32,389
Market risk	**-**	-
Operational risk	**419**	64,966
Risk weighted assets (b)	**32,787**	97,355
Capital adequacy ratio (%) [(a)/(b)*100]	**230.33%**	77.57%

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

6. Interest income

	2017	2016
	AED000	AED000
Term deposits	**60**	**59**
	=====	=====

Term Deposits are placed with HSBC Bank Middle East Limited – UAE Operations.
- USD 2.8m (AED 10.28m) with an interest rate of 0.30% per annum. The deposit is renewable every 3 months.
- AED 57.5m with an interest rate of 0.05% per annum. The deposit is renewable every 6 months.

7. Fee expense

	2017	2016
	AED000	AED000
Fee expense	**-**	(1)
	=====	=====

8. General and administrative expenses

	2017	2016
	AED000	AED000
Others	**(60)**	(84)
	-------	-------
	(60)	(84)
	=====	=====

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.

	2017	2016
	AED000	AED000
Profit /(loss) before tax	**6**	(1,750)
	----------	----------
Total taxable profit/(loss)	**6**	(1,750)
	======	======
Tax for the year at the applicable tax rate of 20%	**(1)**	**-**
	======	======

10. Cash and bank balances

	2017	2016
	AED000	AED000
Balances at bank (refer note 16)		
- Current account	**7,769**	7,749
- Term deposit maturing within three months	**10,283**	10,283
- Term deposit maturing after three months	**57,500**	57,500
	----------	----------
	75,552	75,532
	======	======

11. Investment

Investment in subsidiary

On 23 May 2017, the Company wrote off its investment of AED 373 in Shenfield Nominees Limited. This investment was fully impaired in previous reporting periods.

Name	**Status**	**31 Dec 2016 % Holding**	**31 Dec 2017 % Holding**	**Incorporated in**
Shenfield Nominees Limited	Limited liability company - Dormant	100	-	United Kingdom

12. Other assets

	2017	2016
	AED000	AED000
Intercompany receivables (refer note 16)	**8**	7
Prepayments	**-**	23
	-----------	-----------
	8	30
	=======	=======

13. Other liabilities

	2017	2016
	AED000	AED000
Others	**37**	44
	37	44

14. Share capital

	2017	2016
	AED000	AED000
Authorised, issued and fully paid up:		
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 2017, 51,000 (2016: 51,000) ordinary shares of AED 1,000 each were held by the Parent.

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 2017 since the Company has already reached the maximum limit. This legal reserve is not currently available for distribution.

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 the shareholder 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.

	2017	2016
Transactions during the year	**AED000**	AED000
Interest income from HSBC Bank Middle East Limited – UAE Operations (note 6)	**60**	**59**
Fee expense to HBME Kuwait (note 7)	**-**	**(1)**
Other intercompany income	**6**	**112**

	2017	2016
Balance as at 31 December	**AED000**	AED000
Included in cash and bank balances:		
Balances held with HSBC Bank Middle East Limited – UAE Operations	**75,552**	**75,532**
	=======	=======
Included in other assets:		
Balances held with HSBC Bank Middle East Limited – UAE Operations	**8**	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.

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.

As at 31 December 2017 the Company held AED Nil (2016: AED Nil) financial assets or liabilities carried at fair value.

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 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED000	**AED000**	**AED000**	**AED000**
Financial assets				
Other assets	**-**	**-**	**8**	**8**
Total as at 31 December 2017	**-**	**-**	**8**	**8**

At 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED000	**AED000**	**AED000**	**AED000**
Financial liabilities				
Other liabilities	**-**	**-**	**37**	**37**
Total as at 31 December 2017	**-**	**-**	**37**	**37**

At 31 December 2016	Level 1	Level 2	Level 3	Total
	AED000	AED000	AED000	AED000
Financial assets				
Other assets	-	-	30	30
Total as at 31 December 2016	-	-	30	30

At 31 December 2016	Level 1	Level 2	Level 3	Total
	AED000	AED000	AED000	AED000
Financial liabilities				
Other liabilities	-	-	44	44
Total as at 31 December 2016	-	-	44	44

18. Contingent liabilities and commitments

Contingent liabilities

As at 31 December 2017, there are no known legal proceedings or other contingent liabilities against the Company (2016: Nil).

Commitments

The Company does not have any significant capital commitments as at 31 December 2017 (2016: Nil).

19. Comparative figures

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

20. Subsequent Events

There were no subsequent events after the reporting date.