

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

**Financial statements**

*For the year ended 31 December 2014*

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

## **Director's Report**

The Directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2014.

### ***Activities***

In 2014, HSBC Financial Services (Middle East) Limited ("the Company") continues to hold its banking license and as per management's decision in 2013 the equity brokerage activities have been reduced on a rundown basis throughout the year.

### ***Results for the year***

The operations for the year 2014 resulted in a net profit of AED 1.6 million (2013: AED 59.2 million). The state of the Company's affairs is set out in the financial statements on pages 3 to 27.

### ***Dividends***

The directors propose a final dividend of AED 2 million for the year ended 31 December 2014 (2013: AED 59.2 million).

### ***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/Director) (appointed on 27 March 2014)
Marcus John Hurry	(Chairman/Director) (resigned on 27 March 2014)
Georges El-Hedery	
Roger Winfield	
Mustafa Ramzi	

### ***Auditors***

The shareholders of the Company having agreed to dispense with the requirement to hold annual general meetings, and following the resignation of KPMG have appointed PricewaterhouseCoopers at fees to be agreed by the Directors.



Mr. David Kotheimer  
Chairman



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## **Independent Auditors' Report**

The Shareholders  
HSBC Financial Services (Middle East) Limited

### **Report on the Financial Statements**

We have audited the accompanying financial statements of HSBC Financial Services (Middle East) Limited ("the Company"), which comprise the statement of financial position as at 31 December 2014, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and 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.

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law (8) of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; and the contents of the Directors' report which relate to these financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG Lower Gulf Limited  
Muhammad Tariq  
Registration No: 793

**25 MAR 2015**

## HSBC Financial Services (Middle East) Limited

### Statement of income

for the year ended 31 December 2014

		2014	2013
	Note	AED'000	AED'000
Interest income	6	102	146
Dividend income	11.3	-	185
Net fee and commission income	7	179	86,223
Other income/(expense)		1,482	(188)
		-----	-----
Operating income		1,763	86,366
Net general and administrative expenses	8	182	(12,344)
		-----	-----
Profit before tax		1,945	74,022
Tax expense	9	(389)	(14,804)
		-----	-----
Profit for the year		1,556	59,218
		=====	=====

The accompanying notes on pages 8 to 27 form an integral part of these financial statements.

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

## HSBC Financial Services (Middle East) Limited

### Statement of comprehensive income for the year ended 31 December 2014

	<i>Note</i>	<b>2014</b> <b>AED'000</b>	2013 AED'000
Net profit for the year		<b>1,556</b>	59,218
Other comprehensive income		-	-
		-----	-----
<b>Total comprehensive income for the year</b>		<b>1,556</b>	59,218
		=====	=====

The accompanying notes on pages 8 to 27 form an integral part of these financial statements.

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



# HSBC Financial Services (Middle East) Limited

## Statement of financial position As at 31 December 2014

	Note	2014 AED'000	2013 AED'000
<b>Assets</b>			
Cash and bank balances	10	95,604	152,619
Investments	11	1,243	1,243
Other assets	12	1,842	2,480
<b>Total assets</b>		<b>98,689</b>	<b>156,342</b>
<b>Liabilities</b>			
Other liabilities	13	20,130	20,139
<b>Total liabilities</b>		<b>20,130</b>	<b>20,139</b>
<b>Equity</b>			
Share capital	14	51,000	51,000
Legal reserve	15	25,500	25,500
Retained earnings		2,059	59,703
<b>Total equity</b>		<b>78,559</b>	<b>136,203</b>
<b>Total liabilities and equity</b>		<b>98,689</b>	<b>156,342</b>

The accompanying notes on pages 8 to 27 form an integral part of these financial statements.

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

These financial statements were approved by the Board of Directors on 25 MAR 2015 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 2014

	Note	2014 AED'000	2013 AED'000
<b>Operating activities</b>			
Profit for the year before tax		1,945	74,022
Less: dividend income		-	(185)
		<u>1,945</u>	<u>73,837</u>
<b>Operating profit before working capital change</b>			
Change in receivables		-	4
Change in other assets		638	64,885
Change in other liabilities		14,406	(5,620)
		<u>16,989</u>	<u>133,106</u>
<b>Net cash generated from operations</b>			
Income tax paid		(14,804)	(32,129)
		<u>2,185</u>	<u>100,977</u>
<b>Net cash generated from operating activities</b>			
Investing activities			
Movement in term deposits with bank maturing after 3 months		47,500	(115,283)
Dividend income		-	185
		<u>47,500</u>	<u>(14,121)</u>
<b>Net cash generated/ (used in) investing activities</b>			
Financing activities			
Dividend paid		(59,200)	(129,000)
		<u>(59,200)</u>	<u>(129,000)</u>
<b>Net cash used in financing activities</b>			
Net decrease in cash and cash equivalents		(9,515)	(143,121)
Cash and cash equivalents at 1 January		37,336	180,457
		<u>27,821</u>	<u>37,336</u>
<b>Cash and cash equivalents at 31 December</b>	10		
		<u>27,821</u>	<u>37,336</u>
The cash and cash equivalents at 31 December consist of the following:			
Term deposits with bank maturing within 3 months		-	25,000
Balance in current accounts		27,821	12,336
		<u>27,821</u>	<u>37,336</u>

The accompanying notes on pages 8 to 27 form an integral part of these financial statements.

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

## HSBC Financial Services (Middle East) Limited

### Statement of changes in equity for the year ended 31 December 2014

	Share capital AED' 000	Legal reserve AED' 000	Retained earnings AED' 000	Total AED' 000
At 1 January 2013	51,000	25,500	129,485	205,985
Total comprehensive income for the year	-	-	59,218	59,218
Dividend paid	-	-	(129,000)	(129,000)
	-----	-----	-----	-----
At 31 December 2013	51,000	25,500	59,703	136,203
	=====	=====	=====	=====
<b>At 1 January 2014</b>	<b>51,000</b>	<b>25,500</b>	<b>59,703</b>	<b>136,203</b>
Total comprehensive income for the year	-	-	1,556	1,556
Dividend paid	-	-	(59,200)	(59,200)
	-----	-----	-----	-----
<b>At 31 December 2014</b>	<b>51,000</b>	<b>25,500</b>	<b>2,059</b>	<b>78,559</b>
	=====	=====	=====	=====

The accompanying notes on pages 8 to 27 form an integral part of these financial statements.

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# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2014

### 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 immediate holding Company is HSBC Bank Middle East Limited, Jersey ("the Parent"), and ultimate holding Company is HSBC Holdings plc, incorporated in the United Kingdom. The registered address of the Company is 1st Floor, Building No 5, Emaar Square, P. O. Box 502601, Dubai, UAE.

The Company has a Banking license from Central Bank of UAE. The Company is mainly involved in private banking and equity brokerage activities in the GCC Markets. In December 2013, the equity brokerage business was transferred to HSBC Bank Middle East Limited. The Company has discontinued offering private banking services from 2013.

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

### 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 2014

There were no new standards applied during the year ended 31 December 2014.

On 1 January 2014, the Company adopted 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)', which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments were applied retrospectively and did not have a material effect on the Company's financial statements.

During 2014, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the Company's financial statements.

#### (c) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations effective for the accounting period starting 1 January 2014 have not been early adopted in preparing these financial statements:

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Company or their impact is not material or is limited to the disclosures and presentation requirements in the financial statements.

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

## **Notes to the financial statements** *for the year ended 31 December 2014*

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

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

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

#### **(e) Functional and presentation currency**

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

#### **(f) Accounting for subsidiaries**

The Company acts as a holding Company for its subsidiaries (collectively referred to as "Group", refer note 12.2). These financial statements represent the results of operations and financial position of the Company only. In these financial statements the investments in subsidiaries are stated at cost less provision for impairment losses in accordance with IFRS 10 - Consolidated Financial Statements. Consolidated financial statements are not prepared on the basis that the ultimate holding Company provides 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.

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.



## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements for the year ended 31 December 2014

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

##### a) Interest income and expense (continued)

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.

Fees and commissions includes private banking commissions and commission income on trading activities on behalf of customers. They are recognised as and when the related services are performed.

##### c) Dividend income

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

##### d) Receivables

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

##### e) Payables

Payables are stated at cost.

##### f) Financial instruments

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

#### *Classification*

Financial instruments are categorised as follows:

*Financial assets at fair value through profit or loss ('FVPL'):* This category has two sub-categories: financial assets held for trading and those designated to be fair valued through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements

for the year ended 31 December 2014

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

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

###### *Classification (continued)*

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

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

*Available-for-sale assets* are those non-derivative financial assets that are designated as available for sale or not classified as (a) loans and advances, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

###### *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.

###### *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.

###### *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 2014*

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

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

###### ***Fair value measurement principles***

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

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

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

###### ***Gains and losses on subsequent measurement***

Gains and losses arising from changes in the fair value of the 'financial assets or financial liability at fair value through profit or loss' categories are included in the statement of income in the period in which they arise. 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.

###### ***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.



# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2014

### 3. Significant accounting policies (continued)

#### g) Cash and cash equivalents

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

#### h) Foreign currencies

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

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

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

#### i) Provisions

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

#### j) Income tax expense

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

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

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.

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2014

### 3. Significant accounting policies (continued)

#### j) Income tax expense (continued)

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

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

#### k) Investment in subsidiaries:

Investment in subsidiaries are stated at its fair value through profit or loss.

### 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 the ultimate holding company 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 ultimate holding company'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 ultimate holding company 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.

## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements

for the year ended 31 December 2014

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

##### b) Risk management framework (continued)

###### 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 ultimate holding company standards, policies and procedures dedicated to monitor and manage risk from such activities.

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 ultimate holding company standards, policies and procedures dedicated to monitor and manage risk from such activities.

###### Management of credit risk

The ultimate holding company formulates the high-level credit policies, the independent review of the Company's large credit exposures and portfolio management of risk concentrations. It also reviews the efficiency of the Company's credit approval process, a key element of which is the ultimate holding company's universal credit grading system.

The Company's local management is responsible for:

- implementing credit policies, procedures and lending guidelines that conform to ultimate holding company standards;
- monitoring the credit process which includes delegated approval authorities and credit procedures;
- monitoring quality and performance of the credit portfolio;
- monitoring and controlling all credit risks;
- managing risk concentration by market sector, geography and product;
- managing exposures by customers and retail product segment through local systems; and
- frequent and intensive review and reporting of problem exposures in order to accelerate remedial action.

Periodic risk based audits of credit processes and portfolios are undertaken by Group Audit Middle East. Audit includes consideration of the adequacy and clarity of credit policy/procedure manuals; an in-depth analysis of a representative sample of accounts; the adequacy of impairment calculations and checking that the ultimate holding company and local standards and policies are adhered to in the approval and management of credit facilities.

Credit risk on balances with banks is managed by placing funds with banks and other institutions with acceptable credit ratings.



## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements

for the year ended 31 December 2014

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

##### c) Market risk

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

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

##### *Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company defines interest rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates.

As at reporting date, the Company is not exposed to any interest rate risk.

##### d) Liquidity risk

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

##### *Liquidity and funding management*

The management of liquidity and funding is carried out by the Company in accordance with the Ultimate Holding Company's practices and limits. The Company's liquidity and funding management process includes:

- Monitoring the maturity profile to ensure adequate liquidity is maintained at all times;
- Projecting cash flows;
- Monitoring statement of financial position liquidity ratios against internal requirements;
- Managing contingent liquidity commitments exposures; and
- Maintaining debt financing plans.

The primary source of funding of the Company is through financing arrangements with ultimate holding company 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.

## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements for the year ended 31 December 2014

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

##### d) Liquidity risk (continued)

At 31 December 2014	Carrying value AED'000	Within 3 months AED'000	No fixed maturity AED'000	Total AED'000
Other liabilities	20,130	20,130	-	20,130
<b>Total</b>	<b>20,130</b>	<b>20,130</b>	<b>-</b>	<b>20,130</b>

At 31 December 2013	Carrying value AED'000	Within 3 months AED'000	No fixed maturity AED'000	Total AED'000
Other liabilities	20,139	20,139	-	20,139
<b>Total</b>	<b>20,139</b>	<b>20,139</b>	<b>-</b>	<b>20,139</b>

##### 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.

##### *Management of operational risk*

The ultimate holding company has codified its operational risk management process by issuing high level standards. This explains how the ultimate holding company manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements.

The Company is responsible for managing this risk through a controls-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by Group Audit Middle East, and by monitoring external operational risk events, which ensure that the Company stays in line with best practice and takes account of lessons learned from publicised operational failures within industry.



## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements

for the year ended 31 December 2014

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

##### e) Operational risk (continued)

##### *Management of operational risk (continued)*

The Company is responsible for implementing the following ultimate holding company standards:

- Assigning responsibility for operational risk at the Company;
- Use of information systems to record the identification and assessment of operational risks and to generate appropriate, regular operational risk reporting;
- Assessment of risks inherent in the processes, activities and products;
- Reporting of operational risk loss data to the management and the ultimate holding company if it exceeds the materiality thresholds set by the ultimate holding company; and
- Consideration of risk mitigation, including insurance, where considered cost-effective.

#### 5. Capital management

The Company's capital management approach is driven by its strategy and organizational requirements, taking into account the regulatory and commercial environment in which it operates. It is the Company's policy, in line with its ultimate holding company 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 ultimate holding company'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 2014

#### 5. Capital management (continued)

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

	2014 AED'000 (Basel II)	2013 AED'000 (Basel II)
<b>Tier 1 capital</b>		
Share capital	51,000	51,000
Legal reserve	25,500	25,500
Retained earnings	503	485
	-----	-----
Total	77,003	76,985
	=====	=====
<b>Tier 2 capital</b>	-	-
	-----	-----
<b>Total base capital (a)</b>	77,003	76,985
	=====	=====
<b>Risk weighted assets:</b>		
Credit risk	22,829	34,353
Market risk	-	-
Operational risk	201,815	129,235
	-----	-----
<b>Risk weighted assets (b)</b>	224,644	163,588
	=====	=====
<b>Capital adequacy ratio (%)</b> <b>[(a)/(b)*100]</b>	34.28%	47.06%

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

There have been no material changes in the Company's management of capital during the year.

#### 6. Interest income

	2014 AED'000	2013 AED'000
Term deposits	102	144
Customer accounts	-	2
	-----	-----
	102	146
	=====	=====

## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 7. Fees and commission income & expense

	2014 AED'000	2013 AED'000
Inter-Company income/(expenses):		
-HSBC Bank Plc	165	85,794
-HSBC Private Banking Holdings (Suisse)	-	(76)
Third party net fee income	14	505
	<u>179</u>	<u>86,223</u>

Fee and commission income mainly comprises commissions from sales and trading, Murabaha fees, equity broking and private banking

#### 8. Net general and administrative expenses

	2014 AED'000	2013 AED'000
Inter-Company cost recharges - net of reimbursements	273	524
Personnel expenses (recovery)	(539)	10,453
Others	84	1,367
	<u>(182)</u>	<u>12,344</u>

#### 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.

	2014 AED'000	2013 AED'000
Profit before tax	1,945	74,022
Total taxable profit	<u>1,945</u>	<u>74,022</u>
Tax for the year at the applicable tax rate of 20%	389	14,804
	<u>389</u>	<u>14,804</u>

# HSBC Financial Services (Middle East) Limited

## Notes to the financial statements

for the year ended 31 December 2014

### 10. Cash and bank balances

	2014 AED'000	2013 AED'000
Balances at bank		
- Settlement accounts	8	6
- Call accounts	3,865	7,218
- Current account	23,948	5,112
- Term deposit maturing within three months	-	25,000
- Term deposit maturing after three months	67,783	115,283
	<u>95,604</u>	<u>152,619</u>

### 11. Investments

	2014 AED'000	2013 AED'000
<b>Available for sale</b>		
Investment in Havenvest Private Equity Middle East Limited (refer note 11.1)	1,242	1,242
<b>Investment in subsidiary</b>		
Investment in subsidiaries (refer note 11.2)	1	1
	<u>1,243</u>	<u>1,243</u>

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

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

Name	Status	31 Dec 2013 % Holding	31 Dec 2014 % Holding	Incorporated in
Havenvest Private Equity Middle East Limited (previously HSBC Private Equity Middle East Limited) (“HPE”)	Limited liability Company	19.9	19.9	Dubai International Financial Centre (previously domiciled in British Virgin Islands)



## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 11. Investments (continued)

##### 11.2 Investment in subsidiaries

Entities that are controlled by the group are consolidated from the date the group gains control and cease to be consolidated on the date the group loses control of the entities, for further details about the Company's accounting policy, refer note 2(f). The Company's interest, held directly or indirectly, in subsidiaries is as follows:

Name	Status	31 Dec 2013 % Holding	31 Dec 2014 % Holding	Incorporated in
Shenfield Nominees Limited	Limited liability Company	100	100	United Kingdom
Greenwell Nominees Limited	Limited liability Company (Liquidated in 2014)	100	-	United Kingdom

- 11.3 Subsequent to the completion date of the SPA on 10 December 2012, the Company received further dividend of AED 184,919 from Havenvest Private Equity Limited which was recorded during 2013.

#### 12. Other assets

	2014 AED'000	2013 AED'000
Inter-Company receivables (refer note 17)	6	643
Others	1,836	1,837
	<u>1,842</u>	<u>2,480</u>

#### 13. Other liabilities

	2014 AED'000	2013 AED'000
Tax liability (refer note 9)	389	14,804
Settlement accounts (refer note 13.1)	19,474	1,665
Others	267	3,670
	<u>20,130</u>	<u>20,139</u>

- 13.1 As at 31 December 2014, settlement accounts related to the amounts payable to customers in relation to the redemption of investments held in mutual funds. In 2013, settlement accounts pertain to amounts payable to customers in relation to private banking activities.



## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements

for the year ended 31 December 2014

#### 14. Share capital

	2014 AED'000	2013 AED'000
<i>Authorised, issued and fully paid up:</i>		
51,000 ordinary shares of AED 1,000 each		
(2013: 51,000 ordinary shares of AED 1,000 each)	51,000	51,000

As at 31 December 2014, 51,000 (2013: 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. 8 of 1984 (as amended), a minimum of 10% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to 50% of the paid up capital of the Company. No transfer done in 2014 since the Company has already reached the maximum limit. (2013: AED 25.5 million has been made to the legal reserve). This statutory 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 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.

	2014 AED'000	2013 AED'000
<b>Transactions during the year</b>		
Interest income from HSBC Bank Middle East Limited (note 6)	102	144
Fee and commission income (note 7)	179	85,718
Dividend income (note 11.3)	-	185
Charges paid for services received	273	524
Expenses recharged	-	3,293
- HSBC Global Asset Management (UK) Limited	-	4,813
- HSBC Group Private Banking	-	(1,521)
<b>Balance as at 31 December</b>		
	2014 AED'000	2013 AED'000
<b>Included in cash and bank balances:</b>		
HSBC Bank Middle East Limited – UAE Operations	95,596	150,969
	<u>95,596</u>	<u>150,969</u>

## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements

for the year ended 31 December 2014

#### 17. Transactions with related parties (continued)

	2014 AED'000	2013 AED'000
<b>Included in other assets recoverable from:</b>		
HSBC Bank Middle East Ltd –UAE Operations	6	144
HSBC Asset Management	-	499
	<u>6</u>	<u>643</u>
<b>Included in other liabilities:</b>		
HSBC Private Banking Holdings Limited (Suisse)	-	1,608
HSBC Bank Middle East Head office - Jersey	-	8
HSBC Bank Middle East Ltd –UAE Operations	266	42
	<u>266</u>	<u>1,658</u>

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.

#### 18. 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.

## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 18. Fair value (continued)

##### *Fair value hierarchy (continued)*

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

At 31 December 2014	Level 3 AED'000	Total AED'000
Available for sale investments	1,242	1,242
<b>Total</b>	<b>1,242</b>	<b>1,242</b>
At 31 December 2013	Level 3 AED'000	Total AED'000
Available for sale investments	1,242	1,242
<b>Total</b>	<b>1,242</b>	<b>1,242</b>

##### **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 2014	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>Financial assets</b>				
Cash and bank balances	-	95,604	-	95,604
Other assets	-	-	1,842	1,842
<b>Total as at 31 December 2014</b>	<b>-</b>	<b>95,604</b>	<b>1,842</b>	<b>97,446</b>

## HSBC Financial Services (Middle East) Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 18. Fair value (continued)

##### Financial instruments not measured at fair value (continued)

At 31 December 2014	Level 1	Level 2	Level 3	Total
	USD'000	USD'000	USD'000	USD'000
<b>Financial liabilities</b>				
Other liabilities	-	-	20,130	20,130
	----	-----	-----	-----
<b>Total as at 31 December 2014</b>	-	-	20,130	20,130
	=====	=====	=====	=====

At 31 December 2013	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
<b>Financial assets</b>				
Cash and bank balances	-	152,619	-	152,619
Other assets	-	-	2,480	2,480
	----	-----	-----	-----
<b>Total as at 31 December 2013</b>	-	152,619	2,480	155,019
	=====	=====	=====	=====

At 31 December 2013	Level 1	Level 2	Level 3	Total
	USD'000	USD'000	USD'000	USD'000
<b>Financial liabilities</b>				
Other liabilities	-	-	20,139	20,139
	----	-----	-----	-----
<b>Total as at 31 December 2013</b>	-	-	-	20,139
	=====	=====	=====	=====

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

### **Notes to the financial statements**

*for the year ended 31 December 2014*

#### **19. Contingent liabilities and commitments**

##### *Contingent liabilities*

As at 31 December 2014, there are no known legal proceedings or other contingent liabilities against the Company (2013: Nil).

##### *Commitments*

The Company had no significant capital commitments as at 31 December 2014 (2013: Nil).

#### **20. Events after the reporting date**

The Board of Directors of the Company proposed a dividend of AED 2 million for the year ended 31 December 2014 which is subject to approval at the annual general meeting.

#### **21. Comparative figures**

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