SUPPLEMENTARY LISTING PARTICULARS

HSBC Bank Middle East Limited

(a company limited by shares and existing under the laws of the Dubai International Financial Centre ("DIFC") in Dubai, the United Arab Emirates ("UAE") under registered number 2199 with its registered address at Level 1, Building No.8, Gate Village, DIFC, P.O. Box 502601, Dubai, UAE, which is lead regulated by the Dubai Financial Services Authority)

as Issuer

US$7,000,000,000 DEBT ISSUANCE PROGRAMME

This supplement (the "**Supplement**") to the information memorandum dated 12 July 2018 relating to the US$7,000,000,000 debt issuance programme (the "**Programme**") of HSBC Bank Middle East Limited (the "**Information Memorandum**", which constitutes listing particulars for the purposes of listing on the Official List of the Irish Stock Exchange ("**Listing**") and trading on the Global Exchange Market of the Irish Stock Exchange and, for the avoidance of doubt, which does not constitute (i) a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) or (ii) a base prospectus for the purposes of Directive 2003/71/EC (as amended)) constitutes supplementary listing particulars (pursuant to rule 3.10 of the Global Exchange Market Listing and Admission to Trading – Rules) for the purposes of Listing.

Terms defined in the Information Memorandum have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Information Memorandum.

This Supplement has been approved by the Irish Stock Exchange for the purposes of Listing.

HSBC Bank Middle East Limited (as issuer, the "**Issuer**") accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The purpose of this Supplement is to disclose that the Issuer has published its unaudited interim financial statements for the six-month period ending 30 June 2018 (the "**2018 Interim Financial Statements**"). A copy of the 2018 Interim Financial Statements is set out in the Annex hereto.

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in or incorporated by reference in the Information Memorandum prior to the date of this Supplement, the statement in this Supplement will prevail.

Save as disclosed in this Supplement, there has been no significant change and no significant new matter has arisen since the publication of the Information Memorandum.

7 August 2018

ANNEX

2018 INTERIM FINANCIAL STATEMENTS

HSBC Bank Middle East Limited

Interim Financial Statements 2018

HSBC

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Presentation of information

This document comprises the *Interim Financial Statements 2018* for HSBC Bank Middle East Limited ('the bank') and its subsidiary undertakings (together 'the group'). It contains Condensed Financial Statements, together with the Auditor's review report. References to 'HSBC' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries.

In accordance with IAS 34 the *Interim Report* is intended to provide an update on the *Annual Report and Accounts 2017* and therefore focuses on events during the first six months of 2018 rather than duplicating information previously reported.

Condensed Financial Statements

Consolidated income statement

		Half-year to	
		30 Jun	30 Jun
		2018	2017
	Note	**US$000**	US$000
Net interest income		**454,156**	464,702
– interest income		**572,379**	538,917
– interest expense		**(118,223)**	(74,215)
Net fee income		**214,130**	225,067
– fee income		**265,235**	258,686
– fee expense		**(51,105)**	(33,619)
Net income from financial instruments held for trading or managed on a fair value basis		**134,542**	118,075
Changes in fair value of long-term debt and related derivatives		**4,664**	(60)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**(1,468)**	N/A
Gains less losses from financial investments		**1,201**	(4,784)
Dividend income		**1,236**	1,327
Other operating income, net		**35,645**	81,495
Net operating income before change in expected credit losses and other credit impairment charges		**844,106**	885,822
Change in expected credit losses and other credit impairment charges	*8*	**(59,232)**	N/A
Loan impairment charges and other credit risk provisions		**N/A**	(87,514)
Net operating income		**784,874**	798,308
Employee compensation and benefits		**(275,169)**	(254,317)
General and administrative expenses		**(166,194)**	(168,883)
Depreciation and impairment of property, plant and equipment		**(5,558)**	(7,077)
Amortisation and impairment of intangible assets		**(2,619)**	(2,945)
Total operating expenses		**(449,540)**	(433,222)
Operating profit		**335,334**	365,086
Share of profit in associates		**207**	139
Profit before tax		**335,541**	365,225
Tax expense		**(52,109)**	(66,308)
Profit for the period		**283,432**	298,917
Attributable to:			
– shareholders of the parent company		**283,416**	298,905
– non-controlling interests		**16**	12
Profit for the period		**283,432**	298,917

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2018	30 Jun 2017
	US$000	US$000
Profit for the period	**283,432**	298,917
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments	**N/A**	(790)
– fair value losses	**N/A**	(3,754)
– fair value losses reclassified to the income statement	**N/A**	777
– amounts reclassified to the income statement in respect of impairment losses	**N/A**	2,646
– income taxes	**N/A**	(459)
Debt instruments at fair value though other comprehensive income	**(14,006)**	N/A
– fair value losses	**(14,416)**	N/A
– fair value losses transferred to the income statement on disposal	**160**	N/A
– expected credit losses recognised in income statement	**(242)**	N/A
– income taxes	**492**	N/A
Cash flow hedges	**(22,858)**	5,508
– fair value (losses)/gains	**(25,398)**	6,120
– income taxes	**2,540**	(612)
Exchange differences	**(4,420)**	(5,995)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(5,696)**	—
– before income taxes	**(5,696)**	—
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	**3,084**	(2,600)
– before income taxes	**3,084**	(2,600)
Equity instruments designated at fair value through other comprehensive income	**(12,482)**	N/A
– fair value losses	**(12,482)**	N/A
Other comprehensive expense for the period, net of tax	**(56,378)**	(3,877)
Total comprehensive income for the period	**227,054**	295,040
Attributable to:		
– shareholders of the parent company	**227,038**	295,028
– non-controlling interests	**16**	12
Total comprehensive income for the period	**227,054**	295,040

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

Consolidated statement of financial position

		At	
		30 Jun	31 Dec
		2018	2017
	Notes	**US$000**	US$000
Assets			
Cash and balances at central banks		**498,157**	671,440
Items in the course of collection from other banks		**26,815**	64,419
Trading assets	9	**217,779**	440,624
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**54,882**	N/A
Derivatives	9	**1,065,320**	963,102
Loans and advances to banks		**5,717,708**	6,203,202
Loans and advances to customers	8	**19,943,584**	18,316,780
Reverse repurchase agreements – non-trading		**1,112,679**	1,387,254
Financial investments	9	**5,898,290**	6,746,504
Prepayments, accrued income and other assets		**1,043,381**	657,894
Current tax assets		**10**	1,383
Interests in associates		**2,155**	1,948
Intangible assets		**19,005**	10,502
Deferred tax assets		**216,464**	205,857
Total assets		**35,816,229**	35,670,909
Liabilities and equity			
Liabilities			
Deposits by banks		**2,037,558**	1,798,474
Customer accounts		**22,043,296**	22,583,649
Items in the course of transmission to other banks		**68,112**	87,502
Trading liabilities	9	**93,653**	1,309,860
Financial liabilities designated at fair value	5, 9	**1,845,976**	739,425
Derivatives	9	**1,074,876**	952,332
Debt securities in issue	6	**2,357,995**	2,092,390
Accruals, deferred income and other liabilities		**1,877,320**	1,619,693
Current tax liabilities		**90,887**	110,141
Provisions		**91,629**	71,608
Total liabilities		**31,581,302**	31,365,074
Equity			
Called up share capital		**931,055**	931,055
Share premium account		**61,346**	61,346
Other reserves		**(198,510)**	(132,153)
Retained earnings		**3,436,782**	3,441,349
Total shareholders' equity		**4,230,673**	4,301,597
Non-controlling interests		**4,254**	4,238
Total equity		**4,234,927**	4,305,835
Total liabilities and equity		**35,816,229**	35,670,909

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

G Elhedery

Chief Executive Officer and Deputy Chairman

Consolidated statement of cash flows

	Half-year to	
	30 Jun	30 Jun
	2018	2017
	US$000	US$000
Profit before tax	**335,541**	365,225
Cash flows from operating activities		
Adjustments for:		
Share of profits in associates	**(207)**	(139)
Other non-cash items included in profit before tax	**30,481**	91,425
Change in operating assets	**(4,879,314)**	1,836,208
Change in operating liabilities	**1,284,283**	(2,615,827)
Elimination of exchange differences[1]	**(8,654)**	8,933
Tax paid	**(69,990)**	(86,345)
Net cash from operating activities	**(3,307,860)**	(400,520)
Cash flows from investing activities		
Purchase of financial investments	**(3,719,674)**	(2,194,300)
Proceeds from the sale and maturity of financial investments	**4,532,420**	1,266,794
Net cash flows from the purchase and sale of property, plant and equipment	**(9,149)**	(1,501)
Net purchase of intangible assets	**(11,381)**	(1,759)
Net cash flows from other investing activities	**—**	124,938
Net cash from investing activities	**792,216**	(805,828)
Cash flows from financing activities		
Dividends paid to shareholders of the parent company	**(190,000)**	(163,000)
Net cash from financing activities	**(190,000)**	(163,000)
Net decrease in cash and cash equivalents	**(2,705,644)**	(1,369,348)
Cash and cash equivalents at 1 Jan	**5,800,086**	7,208,806
Exchange differences in respect of cash and cash equivalents	**4,127**	50,456
Cash and cash equivalents at 30 Jun	**3,098,569**	5,889,914

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

Consolidated statement of changes in equity

			Other reserves						
	Called up share capital and share premium	Retained earnings	Financial assets at FVOCI reserves[1]	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 31 Dec 2017	**992,401**	**3,441,349**	**6,433**	**(7,354)**	**(115,911)**	**(15,321)**	**4,301,597**	**4,238**	**4,305,835**
Impact on transition to IFRS 9	**—**	**(92,650)**	**(12,725)**	**—**	**—**	**—**	**(105,375)**	**—**	**(105,375)**
At 1 Jan 2018	**992,401**	**3,348,699**	**(6,292)**	**(7,354)**	**(115,911)**	**(15,321)**	**4,196,222**	**4,238**	**4,200,460**
Profit for the period	**—**	**283,416**	**—**	**—**	**—**	**—**	**283,416**	**16**	**283,432**
Other comprehensive income (net of tax)	**—**	**(2,601)**	**(26,472)**	**(22,858)**	**(4,447)**	**—**	**(56,378)**	**—**	**(56,378)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**(14,006)**	**—**	**—**	**—**	**(14,006)**	**—**	**(14,006)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**(12,482)**	**—**	**—**	**—**	**(12,482)**	**—**	**(12,482)**
– cash flow hedges	**—**	**—**	**—**	**(22,858)**	**—**	**—**	**(22,858)**	**—**	**(22,858)**
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**—**	**3,084**	**—**	**—**	**—**	**—**	**3,084**	**—**	**3,084**
– remeasurement of defined benefit asset/liability	**—**	**(5,696)**	**—**	**—**	**—**	**—**	**(5,696)**	**—**	**(5,696)**
– exchange differences	**—**	**11**	**16**	**—**	**(4,447)**	**—**	**(4,420)**	**—**	**(4,420)**
Total comprehensive income for the period	**—**	**280,815**	**(26,472)**	**(22,858)**	**(4,447)**	**—**	**227,038**	**16**	**227,054**
Ordinary share issued	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Dividends to shareholders	**—**	**(190,000)**	**—**	**—**	**—**	**—**	**(190,000)**	**—**	**(190,000)**
Exercise and lapse of share options and vesting of share awards	**—**	**(5,770)**	**—**	**—**	**—**	**—**	**(5,770)**	**—**	**(5,770)**
Cost of share-based payment arrangements	**—**	**6,268**	**—**	**—**	**—**	**—**	**6,268**	**—**	**6,268**
Other movements	**—**	**(3,230)**	**145**	**—**	**—**	**—**	**(3,085)**	**—**	**(3,085)**
At 30 Jun 2018	**992,401**	**3,436,782**	**(32,619)**	**(30,212)**	**(120,358)**	**(15,321)**	**4,230,673**	**4,254**	**4,234,927**
At 1 Jan 2017	931,055	3,345,703	17,139	(3,358)	(105,220)	(15,321)	4,169,998	4,098	4,174,096
Profit for the period	—	298,905	—	—	—	—	298,905	12	298,917
Other comprehensive income (net of tax)	—	(2,573)	(512)	5,508	(6,300)	—	(3,877)	—	(3,877)
– available-for-sale investments	—	—	(790)	—	—	—	(790)	—	(790)
– cash flow hedges	—	—	—	5,508	—	—	5,508	—	5,508
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	—	(2,600)	—	—	—	—	(2,600)	—	(2,600)
– remeasurement of defined benefit asset/liability	—	—	—	—	—	—	—	—	—
– exchange differences	—	27	278	—	(6,300)	—	(5,995)	—	(5,995)
Total comprehensive income for the period	—	296,332	(512)	5,508	(6,300)	—	295,028	12	295,040
Ordinary share issued	61,346	—	—	—	—	—	61,346	—	61,346
Dividends to shareholders	—	(163,000)	—	—	—	—	(163,000)	—	(163,000)
Exercise and lapse of share options and vesting of share awards	—	(5,859)	—	—	—	—	(5,859)	—	(5,859)
Cost of share-based payment arrangements	—	5,333	—	—	—	—	5,333	—	5,333
Other movements	—	(8,700)	66	—	—	—	(8,634)	(1)	(8,635)
At 30 Jun 2017	992,401	3,469,809	16,693	2,150	(111,520)	(15,321)	4,354,212	4,109	4,358,321

1 *US$6.4 million at 31 December 2017 represents the IAS 39 Available-for-sale fair value reserves as at 31 December 2017.*

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

1 Legal status and principal activities

The group has its place of incorporation and head office in Dubai International Financial Centre ('DIFC'), in the United Arab Emirates, under a category 1 licence issued by the Dubai Financial Services Authority ('DFSA').

The group's registered office is Level 1, Gate Village Building 8, Dubai International Financial Centre, Dubai, United Arab Emirates.

The group through its branch network and subsidiary undertakings provides a range of banking and related financial services in the Middle East and North Africa.

The immediate parent company of the group is HSBC Middle East Holdings BV and the ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

2 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of the group have been prepared in accordance with IAS 34 'Interim Financial Reporting' ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). Therefore they include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the group since the end of 2017. These interim condensed consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2017*, the information about the application of IFRS 9 'Financial Instruments' set out below.

At 30 June 2018, there were no unendorsed standards effective for the half-year to 30 June 2018 affecting these interim condensed consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

Standards applied during the half-year to 30 June 2018

The group has adopted the requirements of IFRS 9 from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the group has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the group has not restated comparatives. Adoption reduced net assets at 1 January 2018 by US$105.4 million as set out in Note 7.

In addition, the group has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the interim condensed consolidated financial statements of the group.

Changes in accounting policy

While not necessarily required by the adoption of IFRS 9, the following voluntary changes in accounting policy and presentation have been made as a result of reviews carried out in conjunction with its adoption. The effect of presentational changes at 1 January 2018 is included in the reconciliation set out in Note 7 and comparatives have not been restated.

- The group considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. The group concluded that a change in accounting policy and presentation from 'trading customer accounts and other debt securities in issue' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance. As a result, rather than being classified as held for trading, the group will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. A further consequence of this change in presentation is that the effects of changes in the liabilities' credit risk will be presented in other comprehensive income with the remaining effect presented in profit or loss in accordance with the accounting policy adopted in 2017 (following the adoption of the requirements in IFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value).
- Settlement accounts have been reclassified from 'Trading assets' to 'Prepayments, accrued income and other assets' and from 'Trading liabilities' to 'Accruals, deferred income and other liabilities'. The change in presentation for financial assets is in accordance with IFRS 9 and the change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. The change in presentation for financial liabilities has had no effect on measurement of these items and therefore on retained earnings or profit for any period.

Differences between IAS 39 and IFRS 9

Classification and measurement

Key similarities and differences between IAS 39 and IFRS 9 for the classification and measurement of financial assets are set out below. There are no differences for financial liabilities, except for the presentation of gains and losses on financial liabilities designated at fair value and the requirements to reconsider fair value designation on transition to IFRS 9.

	IAS 39	IFRS 9
Classification criteria	Financial assets are measured at amortised cost (loans & receivables and held to maturity), fair value through other comprehensive income ('FVOCI') (AFS), or fair value through profit or loss (derivatives and trading) based on the nature of the instrument and the purpose for which it is held. Embedded derivatives are separated from their host contract unless the contract as a whole is measured at fair value through profit or loss. The fair value option applies where there are non-closely related embedded derivatives that are not bifurcated, financial instruments are managed on a fair value basis or where measuring at fair value through profit or loss would reduce or eliminate an accounting mismatch. AFS is the default category.	Debt instruments are measured at amortised cost or FVOCI based on their contractual terms and the business model in which they are held as set out in the accounting policies above. The concept of embedded derivatives does not apply to financial assets. Therefore, the fair value option only applies where it would reduce or eliminate an accounting mismatch. Fair value through profit or loss is the default category. Equity securities are measured at fair value through profit or loss unless, where permitted by IFRS 9, the option has been exercised to measure at FVOCI.
Presentation	Upon disposal of AFS securities (debt instruments and equity securities) the cumulative gains or losses in other comprehensive income are recognised in profit or loss.	Upon disposal of debt instruments measured at FVOCI the cumulative gains or losses in other comprehensive income are recognised in profit or loss. Cumulative gains or losses in other comprehensive income are not recognised in profit or loss on the disposal of equity securities measured at FVOCI.

A reconciliation of presentational and measurement differences resulting from the adoption of IFRS 9 at 1 January 2018 is set out in Note 7.

In general:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9;
- debt securities classified as available for sale are measured at Fair Value through Other Comprehensive Income ('FVOCI');
- treasury and other eligible bills classified as available for sale are measured at FVOCI; and
- all equity securities remain measured at fair value with the fair value movements shown in profit or loss or other comprehensive income. The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and strategic investments where the group holds the investments other than to generate a capital return.

Impairment

The recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge may be more volatile. The adoption has resulted in an increase in the total level of impairment allowances as set out in Note 7, since all financial assets are assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Key similarities and differences between IAS 39 and IFRS 9

	IAS 39	IFRS 9
Scope	For amortised cost assets, impairment is recognised when there is objective evidence of impairment. Losses are measured by comparing the carrying amount with the discounted future cash flows. Losses which may arise from future events are not recognised. For available-for-sale financial assets, impairment is recognised when there is objective evidence of a shortfall in the recovery of future cash flows. Impairment is measured as the decrease in fair value below the original cost at initial recognition.	The same recognition and measurement requirements apply to both amortised cost and FVOCI financial assets. Impairment is not recognised on equity securities which are measured at FVOCI. Impairment is recognised for all financial assets in scope at either 12-month ECL or lifetime ECL. All reasonable and supportable information, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date is used in measuring ECL.
Application	Accounting policies generally make a distinction between individually significant loans and homogeneous groups of loans which are assessed collectively.	The distinction between individual and collective assessment is less relevant. In general, whether loans are managed through wholesale credit risk systems or retail credit risk systems is relevant because of differences in the types of information available and the way credit risk is managed.
Impaired/ Stage 3	The criteria used to determine whether there is objective evidence of impairment are the same for individually significant loans assessed under IAS 39 and for IFRS 9. The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed and is not adjusted for expected future changes in market prices. Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant using either roll rate methodologies or historical loss rate experience for loans. Under these methodologies, impairment allowances are recognised at a portfolio level. However, loans are classified as impaired for presentation purposes when they are more than 90 days past due or have been renegotiated for credit risk reasons. For retail loans, an exception is made for individual loans that are in arrears by more than 90 days but have been individually assessed to have no indications of impairment, and these are not classified as impaired.	The stage 3 population is consistent with impaired loans under IAS 39 which are considered individually significant. For wholesale loans, individual discounted cash flow calculations continue to be performed. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability-weighted to determine the ECL rather than using the best estimate of cash flows. For the retail population, stage 3 is determined by considering the relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, or a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default. The impairment allowance is determined by the same calculation used for stage 2, with the probability of default set to 1. The result may, therefore, not be the same as that determined by the IAS 39 statistical methods and the population disclosed as stage 3 will not necessarily correspond with that disclosed as impaired in accordance with IAS 39.
Stage 2	This is not an IAS 39 concept.	An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to stage 2, is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2. For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

<table>
<tr><th></th><th>IAS 39</th><th>IFRS 9</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>Origination CRR</th><th>Significance trigger – PD to increase by</th></tr>
<tr><td>0.1–1.2</td><td>15bps</td></tr>
<tr><td>2.1–3.3</td><td>30bps</td></tr>
<tr><td>Greater than 3.3 and</td><td>2x</td></tr>
</table>
For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle (‘TTC’) PDs and TTC migration probabilities, consistent with the instrument’s underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:
<table>
<tr><th>Origination CRR</th><th>Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage2) ≥</th></tr>
<tr><td>0.1</td><td>5 notches</td></tr>
<tr><td>1.1–4.2</td><td>4 notches</td></tr>
<tr><td>4.3–5.1</td><td>3 notches</td></tr>
<tr><td>5.2–7.1</td><td>2 notches</td></tr>
<tr><td>7.2–8.2</td><td>1 notches</td></tr>
<tr><td>8.3</td><td>0 notches</td></tr>
</table>
For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.
</td></tr>
<tr><td>Stage 1</td><td>This is not an IAS 39 concept. However, incurred but not yet identified impairment is assessed on loans for which no evidence of impairment has been specifically identified by estimating a collective allowance determined after taking into account factors including the estimated period between impairment occurring and the loss being identified. This is assessed empirically on a periodic basis and may vary over time. Similarly, for homogeneous groups of loans and advances which are assessed under IAS 39 on a collective basis, the inherent loss is determined using risk factors including the period of time between loss identification and write-off which is regularly benchmarked against actual outcomes.</td><td>Financial assets which are not considered to have significantly increased in credit risk have loss allowances measured at an amount equal to 12-month ECL. This 12-month time horizon is likely to be equal to or longer than the period estimated under IAS 39 (typically between 6 and 12 months).</td></tr>
<tr><td>Movement between stages</td><td>This is not an IAS 39 concept.</td><td>Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.</td></tr>
</table>

	IAS 39	IFRS 9
Measurement of ECL	Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date.	The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the group calculates ECL using three main components, a probability of default, a loss given default and the exposure at default ('EAD'). The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. The group will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments.

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of amortised cost and FVOCI financial assets, the valuation of financial instruments, deferred tax assets and provisions. The implementation of IFRS 9 resulted in a change to the assessment of the critical accounting estimates and judgements related to impairment of financial assets.

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'Upside scenarios' which have not generally been subject to experience gained through stress testing.

The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. The assumptions underlying the Central scenario and information about how scenarios are developed in relation to the HSBC Group's top and emerging risks and its judgements, informed by consensus forecasts of professional industry forecasters. The adjustment from the ECL determined by using the Central scenario alone, which is used to calculate an unbiased expected loss, provides an indication of the overall sensitivity of ECL to different economic assumptions. There were no other changes in the current period to the critical accounting estimates and judgements applied in 2018, which are stated in the *Annual Report and Accounts 2017*.

(c) Composition of the group

There were no material changes in the composition of the group in the half-year to 30 June 2018.

(d) Future accounting developments

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for 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 that 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 under IAS 17. The group is currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements.

IFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2021. The group has assessed the impact of IFRS 17 and expects that the standard will have no significant effect, when applied, on the consolidated financial statements of the group.

(e) Accounting policies

Except as described above, the accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described in the *Annual Report and Accounts 2017*, as are the methods of computation.

3 Dividends

Dividends paid to shareholders of the parent company

	Half-year to			
	30 Jun 2018		30 Jun 2017	
	Per share	**Total**	Per share	Total
	US$	**US$000**	US$	US$000
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	**0.1504**	**140,000**	0.0269	25,000
In respect of current year:				
– first interim dividend	**0.0537**	**50,000**	0.1482	138,000
Total	**0.2041**	**190,000**	0.1751	163,000

4 Segment analysis

The basis used to identify the group's reporting segments are discussed in the *Annual Report and Accounts 2017*.

Profit/(loss) for the period

	2018					
	Retail Banking and Wealth Management	**Commercial Banking**	**Global Banking and Markets**	**Global Private Banking**	**Corporate Centre**	**Total**
Half-year to 30 Jun	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Net interest income	**194,613**	**111,445**	**130,061**	**–**	**18,037**	**454,156**
Net fee income/(expense)	**50,583**	**63,151**	**102,109**	**–**	**(1,713)**	**214,130**
Net income from financial instruments held for trading or managed on a fair value basis	**19,652**	**15,386**	**85,185**	**–**	**14,319**	**134,542**
Other income	**4,825**	**6,340**	**10,783**	**–**	**19,330**	**41,278**
Net operating income before change in expected credit losses and other credit impairment charges	**269,673**	**196,322**	**328,138**	**–**	**49,973**	**844,106**
Change in expected credit losses and other credit impairment charges	**(29,320)**	**(45,502)**	**15,133**	**–**	**457**	**(59,232)**
Net operating income	**240,353**	**150,820**	**343,271**	**–**	**50,430**	**784,874**
Total operating expenses	**(172,285)**	**(110,737)**	**(124,220)**		**(42,298)**	**(449,540)**
Operating profit	**68,068**	**40,083**	**219,051**	**–**	**8,132**	**335,334**
Share of profit in associates	**–**	**–**	**–**	**–**	**207**	**207**
Profit before tax	**68,068**	**40,083**	**219,051**	**–**	**8,339**	**335,541**
By geographical region						
U.A.E.	**60,395**	**33,317**	**151,453**	**–**	**(1,343)**	**243,822**
Qatar	**2,106**	**(6,186)**	**40,920**	**–**	**2,845**	**39,685**
Rest of Middle East	**5,567**	**12,952**	**26,678**	**–**	**6,837**	**52,034**
Profit before tax	**68,068**	**40,083**	**219,051**	**–**	**8,339**	**335,541**

Profit/(loss) for the period (continued)

	2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
Half-year to 30 Jun	US$000	US$000	US$000	US$000	US$000	US$000
Net interest income	196,179	108,325	111,473	—	48,725	464,702
Net fee income/(expense)	55,019	72,895	100,950	—	(3,797)	225,067
Net trading income/(expense)	19,248	14,789	90,150	—	(6,112)	118,075
Other income	12,770	9,623	3,400	99	52,086	77,978
Net operating income before loan impairment charges and other credit risk	283,216	205,632	305,973	99	90,902	885,822
Loan impairment charges and other credit risk provisions	(35,697)	(32,506)	(19,311)	—	—	(87,514)
Net operating income	247,519	173,126	286,662	99	90,902	798,308
Total operating expenses	(163,257)	(106,111)	(120,235)	(99)	(43,520)	(433,222)
Operating profit	84,262	67,015	166,427	—	47,382	365,086
Share of profit in associates	—	—	—	—	139	139
Profit before tax	84,262	67,015	166,427	—	47,521	365,225
By geographical region						
U.A.E.	71,025	38,488	139,080	—	37,856	286,449
Qatar	7,227	14,043	32,715	—	2,462	56,447
Rest of Middle East	6,010	14,484	(5,368)	—	7,203	22,329
Profit before tax	84,262	67,015	166,427	—	47,521	365,225

Balance sheet information

	2018					
	Retail Banking and Wealth Management	**Commercial Banking**	**Global Banking and Markets**	**Global Private Banking**	**Corporate Centre**	**Total**
At 30 Jun	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Loans and advances to customers (net)	**3,663,564**	**6,654,575**	**9,625,445**	**—**	**—**	**19,943,584**
Interest in associates	**—**	**—**	**—**	**—**	**2,155**	**2,155**
Total assets	**3,678,757**	**7,013,073**	**13,844,644**	**—**	**11,279,755**	**35,816,229**
Customer accounts	**10,672,203**	**4,411,076**	**6,458,135**	**—**	**501,882**	**22,043,296**
Total liabilities	**10,846,717**	**5,785,317**	**10,403,467**	**—**	**4,545,801**	**31,581,302**
At 31 Dec	2017					
Loans and advances to customers (net)	3,788,578	6,033,990	8,492,130	—	2,082	18,316,780
Interest in associates	—	—	—	—	1,948	1,948
Total assets	3,800,405	6,369,620	12,801,850	—	12,699,034	35,670,909
Customer accounts	10,647,785	4,562,150	6,846,188	—	527,526	22,583,649
Total liabilities	10,838,029	5,736,970	10,744,100	—	4,045,975	31,365,074

Other financial information

Net operating income by global business

		2018					
		Retail Banking and Wealth Management	**Commercial Banking**	**Global Banking and Markets**	**Global Private Banking**	**Corporate Centre**	**Total**
Half-year to 30 Jun	*Footnote*	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Net operating income	*1*	**269,673**	**196,322**	**328,138**	**—**	**49,973**	**844,106**
– External		**196,646**	**225,795**	**289,317**	**—**	**132,348**	**844,106**
– Internal		**73,027**	**(29,473)**	**38,821**	**—**	**(82,375)**	**—**
Half-year to 30 Jun		2017					
Net operating income	*1*	283,216	205,632	305,973	99	90,902	885,822
– External		236,807	227,140	329,514	—	92,361	885,822
– Internal		46,409	(21,508)	(23,541)	99	(1,459)	—

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

5 Financial liabilities designated at fair value

	At	
	30 Jun 2018	31 Dec 2017
	US$000	US$000
Deposits by bank and customer accounts	**26,708**	–
Debt securities in issue	**1,819,268**	739,425
Total	**1,845,976**	739,425

At 30 June 2018, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of US$20.1 million (30 June 2017: US$1.8 million loss).

6 Debt securities in issue

	30 Jun 2018		31 Dec 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	US$000	**US$000**	US$000	US$000
Medium-term notes	**3,227,263**	**3,224,814**	3,149,615	3,150,286
Non-equity preference shares	**950,000**	**905,888**	950,000	885,734
Total debt securities in issue	**4,177,263**	**4,130,702**	4,099,615	4,036,020
Included within:				
– trading liabilities	**–**	**–**	(1,267,800)	(1,267,800)
– financial liabilities designated at fair value (Note 5)	**(1,819,268)**	**(1,819,268)**	(739,425)	(739,425)
Total	**2,357,995**	**2,311,434**	2,092,390	2,028,795

7 Effect of reclassification upon adoption of IFRS 9

Reconciliation of consolidated balance sheet at 31 December 2017 and 1 January 2018

	Footnotes	IFRS 9 measurement category	IAS 39 carrying amount at 31 Dec 2017	Other changes in classification	IFRS 9 reclassification to			Carrying amount post reclassification	IFRS 9 re-measurement including expected credit losses[2]	IFRS 9 carrying amount at 1 Jan 2018
					Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost			
			US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Assets										
Cash and balances at central banks		**Amortised cost**	**671,440**	**–**	**–**	**–**	**–**	**671,440**	**(163)**	**671,277**
Items in the course of collection from other banks		**Amortised cost**	**64,419**	**–**	**–**	**–**	**–**	**64,419**	**–**	**64,419**
Trading assets	1	**FVPL**	**440,624**	**(203)**	**–**	**–**	**–**	**440,421**	**–**	**440,421**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	3	**FVPL**	**–**	**–**	**58,140**	**–**	**–**	**58,140**	**–**	**58,140**
Derivatives		**FVPL**	**963,102**	**–**	**–**	**–**	**–**	**963,102**	**–**	**963,102**
Loans and advances to banks		**Amortised cost**	**6,203,202**	**–**	**–**	**–**	**–**	**6,203,202**	**(826)**	**6,202,376**
Loans and advances to customers		**Amortised cost**	**18,316,780**	**–**	**–**	**–**	**–**	**18,316,780**	**(78,142)**	**18,238,638**
Reverse repurchase agreements – non-trading		**Amortised cost**	**1,387,254**	**–**	**–**	**–**	**–**	**1,387,254**	**–**	**1,387,254**
Financial investments	3, 6	**FVOCI**	**6,746,504**	**–**	**(58,140)**	**–**	**–**	**6,688,364**	**–**	**6,688,364**
Prepayments, accrued income and other assets	1	**Amortised cost**	**657,894**	**203**	**–**	**–**	**–**	**658,097**	**(509)**	**657,588**
Current tax assets		**N/A**	**1,383**	**–**	**–**	**–**	**–**	**1,383**	**–**	**1,383**
Interests in associates and joint ventures		**N/A**	**1,948**	**–**	**–**	**–**	**–**	**1,948**	**–**	**1,948**
Intangible assets		**N/A**	**10,502**	**–**	**–**	**–**	**–**	**10,502**	**–**	**10,502**
Deferred tax assets		**N/A**	**205,857**	**–**	**–**	**–**	**–**	**205,857**	**10,683**	**216,540**
Total assets			**35,670,909**	**–**	**–**	**–**	**–**	**35,670,909**	**(68,957)**	**35,601,952**

For footnotes, see page 17.

Reconciliation for consolidated balance sheet at 31 December 2017 and 1 January 2018 (continued)

	Footnotes	IAS 39 measure-ment category	IFRS 9 measure-ment category	IAS 39 carrying amount at 31 Dec 2017	Other changes in classif-ication	IFRS 9 reclassification to			Carrying amount post re-classification	IFRS 9 remeasure-ment including expected credit losses[2]	IFRS 9 carrying amount at 1 Jan 2018
						Fair value through profit and loss	Fair value through other compre-hensive income	Amortised cost			
				US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Liabilities											
Deposits by banks		Amortised cost	Amortised cost	1,798,474	–	–	–	–	1,798,474	–	1,798,474
Customer accounts		Amortised cost	Amortised cost	22,583,649	–	–	–	–	22,583,649	–	22,583,649
Items in the course of transmission to other banks		Amortised cost	Amortised cost	87,502	–	–	–	–	87,502	–	87,502
Trading liabilities	1, 4	FVPL	FVPL	1,309,860	(1,269,543)	–	–	–	40,317	–	40,317
Financial liabilities designated at fair value	4	FVPL	FVPL	739,425	1,267,800	–	–	–	2,007,225	–	2,007,225
Derivatives		FVPL	FVPL	952,332	–	–	–	–	952,332	–	952,332
Debt securities in issue		Amortised cost	Amortised cost	2,092,390	–	–	–	–	2,092,390	–	2,092,390
Accruals, deferred income and other liabilities	1	Amortised cost	Amortised cost	1,619,693	1,743	–	–	–	1,621,436	–	1,621,436
Current tax liabilities		N/A	N/A	110,141	–	–	–	–	110,141	–	110,141
Provisions		N/A	N/A	71,608	–	–	–	–	71,608	36,418	108,026
Total liabilities				31,365,074	–	–	–	–	31,365,074	36,418	31,401,492

For footnotes, see page 17.

	Footnote	IAS 39 carrying amount at 31 Dec 2017	IFRS 9 reclassification	Carrying amount post reclassification	IFRS 9 remeasurement including expected credit losses	Carrying amount at 1 Jan 2018
		US$000	US$000	US$000	US$000	US$000
Equity						
Called up share capital		931,055	–	931,055	–	931,055
Share premium account		61,346	–	61,346	–	61,346
Other reserves	5	(132,153)	(14,000)	(146,153)	1,275	(144,878)
Retained earnings		3,441,349	14,000	3,455,349	(106,650)	3,348,699
Total Shareholders Equity		4,301,597	–	4,301,597	(105,375)	4,196,222
Non-controlling interests		4,238	–	4,238	–	4,238
Total equity		4,305,835	–	4,305,835	(105,375)	4,200,460

For footnotes, see page 17.

Reconciliation of impairment allowance under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9

		Reclassification to			Remeasurement		
	IAS 39 measurement category	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Stage 3	Stage 1 & Stage 2	Total
		US$000	US$000	US$000	US$000	US$000	US$000
Financial assets at amortised cost							
IAS 39 impairment allowance at 31 Dec 2017							**1,071,499**
Cash and balances at central banks	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**163**	**163**
Loans and advances to banks	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**826**	**826**
Loans and advances to customers	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**67,646**	**10,496**	**78,142**
Prepayments, accrued income and other assets	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**509**	**509**
Expected credit loss allowance at 1 Jan 2018							**1,151,139**
Financial assets at fair value							
IAS 39 impairment allowance at 31 Dec 2017							**–**
Debt instruments at fair value	**N/A**	**N/A**	**1,275**	**N/A**	**N/A**	**N/A**	**1,275**
Expected credit loss allowance at 1 Jan 2018							**1,275**
Loan commitments and financial guarantee contracts							
IAS 37 provisions at 31 Dec 2017							**15,631**
Provisions (loan commitments and financial guarantees)	**N/A**	**N/A**	**N/A**	**N/A**	**(4,748)**	**41,166**	**36,418**
Expected credit loss provision at 1 Jan 2018							**52,049**

Footnotes to Effect of reclassification upon adoption of IFRS 9

1 *Settlement accounts of US$0.2 million have been reclassified from 'Trading assets' to 'Prepayments, accrued income and other assets' as a result of the assessment of business model in accordance with IFRS 9. Settlement accounts previously presented as 'Trading liabilities' of US$1.7 million have been represented in 'Accruals, deferred income and other liabilities'. This change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. These changes in presentation for financial assets and liabilities have had no effect on measurement of these items and therefore on 'Retained earnings'.*

2 *IFRS 9 expected credit losses have decreased net assets by US$105.4 million principally comprising of US$78.1 million reduction in the carrying value of assets classified as 'Loans and advances to customers' and US$36.4 million increase in 'Provisions' relating to expected credit losses on loan commitments and financial guarantee contracts.*

3 *US$58.1 million of available for sale non-traded equity instruments have been reclassified as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' in accordance with IFRS 9.*

4 *We have considered market practices for the presentation of US$1,267.8 million of financial liabilities which contain both deposit and derivative components. We have concluded that a change in accounting policy and presentation from 'Trading liabilities' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance. As a result, rather than being classified as held for trading, we will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. Consequently, changes in fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income rather than profit or loss. For the half-year to 30 June 2017, a restatement would have decreased 'Net income from financial instruments held for trading or managed on a fair value basis' by US$7.01 million, with an equivalent net increase in other comprehensive income.*

5 *While IFRS 9 ECL has no effect on the carrying value of FVOCI financial assets, which remain measured at fair value, the FVOCI reserve (formerly AFS reserve) relating to financial investments reclassified to 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' in accordance with IFRS 9 has been transferred to retained earnings.*

6 *Measurement refers to that under IAS 39 and IFRS 9. Financial investments measured under fair value through other comprehensive income were measured as available-for-sale instruments under IAS 39.*

8 Risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all risk management information and disclosures required in the annual financial statements, they should be read in conjunction with the *Annual Report and Accounts 2017.*

There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2017.*

Summary of credit risk

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

		At 30 Jun 2018		At 1 Jan 2018	
		Gross carrying/ nominal amount	Allowance for ECL[1]	Gross carrying/ nominal amount	Allowance for ECL[1]
	Footnote	US$000	US$000	US$000	US$000
Loans and advances to customers at amortised cost		21,075,489	(1,131,905)	19,388,279	(1,149,641)
– personal		3,933,936	(228,828)	4,048,260	(242,785)
– corporate and commercial		16,899,126	(878,962)	15,259,495	(874,348)
– non-bank financial institutions		242,427	(24,115)	80,524	(32,508)
Loans and advances to banks at amortised cost		5,718,520	(812)	6,203,202	(826)
Other financial assets measured at amortised cost		2,361,594	(745)	2,703,479	(672)
– cash and balances at central banks		498,343	(186)	671,440	(163)
– Items in the course of collection from other banks		26,815	—	64,419	—
– reverse repurchase agreements – non-trading		1,112,679	—	1,387,254	—
– prepayments, accrued income and other assets	2	723,757	(559)	580,366	(509)
Total gross carrying amount on balance sheet		**29,155,603**	**(1,133,462)**	28,294,960	(1,151,139)
Loans and other credit-related commitment		6,393,131	(5,226)	6,970,326	(5,452)
Financial guarantee and similar contract		15,345,992	(52,177)	14,361,374	(46,597)
Total nominal amount off balance sheet	3	**21,739,123**	**(57,403)**	21,331,700	(52,049)

	Fair value[4]	Memorandum allowance for ECL	Fair value[4]	Memorandum allowance for ECL
	US$000	US$000	US$000	US$000
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	5,850,749	(1,033)	6,628,270	(1,275)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated statement of financial position includes both financial and non-financial assets.*
3 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of Debt Instruments at Fair Value through OCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Reconciliation of allowances for ECL

	Allowance for ECL
	US$000
At 1 Jan 2018	**(1,203,188)**
Net remeasurement of ECL arising from transfer of stage	4,315
Net new lending and changes to risk parameters	(74,983)
Assets written off	81,670
Foreign exchange	130
Others	1,191
At 30 Jun 2018	**(1,190,865)**
ECL income statement charge for the period	(70,668)
Recoveries	11,467
Others	(31)
Total ECL income statement charge for the period	**(59,232)**

Credit quality of financial instruments

The group assesses the credit quality of all financial instruments that are subject to credit risk.

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default.
- 'Good' exposures demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit-impaired' exposures have been assessed as impaired.

The five credit quality classifications defined above each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. Under IAS 39 retail lending credit quality was disclosed based on expected-loss percentages. Under IFRS 9 retail lending credit quality is now disclosed based on a 12-month probability-weighted PD. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

Credit quality classification

	Debt securities and other bills	Wholesale lending	Retail lending
	External credit rating	Internal credit rating	Internal credit rating
Quality classification			
Strong	A- and above	CRR1 to CRR2	Band 1 and 2
Good	BBB+ to BBB-	CRR3	Band 3
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	Band 4 and 5
Sub-standard	B- to C	CRR6 to CRR8	Band 6
Credit-impaired	Default	CRR9 to CRR10	Band 7

Distribution of financial instruments by credit quality

	Gross carrying amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Loans and advances to customers at amortised cost	6,400,449	6,922,433	5,554,413	797,925	1,400,269	21,075,489	(1,131,905)	19,943,584
Loans and advances to banks at amortised cost	4,304,037	1,238,332	176,151	–	–	5,718,520	(812)	5,717,708
Other financial assets measured at amortised cost	945,530	617,607	788,728	9,414	315	2,361,594	(745)	2,360,849
At 30 Jun 2018	**11,650,016**	**8,778,372**	**6,519,292**	**807,339**	**1,400,584**	**29,155,603**	**(1,133,462)**	**28,022,141**

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance.*

The disclosure below was included in the group's financial statements for the year ended 31 December 2017 and does not reflect the adoption of IFRS 9. The table below is not directly comparable to the 'Distribution of financial instruments by credit quality' at 30 June 2018 on page 19.

Distribution of financial instruments by credit quality

	31 Dec 2017								
	Neither past due not impaired								
	Strong	Good	Satisfactory	Sub-standard	Past due but not impaired	Impaired	Total gross amount	Impairment allowances	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cash and balances at central banks	412,471	258,969	–	–	–	–	671,440	–	671,440
Items in the course of collection from other banks	–	–	64,419	–	–	–	64,419	–	64,419
Trading assets	175,920	52,474	206,757	5,473	–	–	440,624	–	440,624
Derivatives	786,228	57,088	116,743	3,043	–	–	963,102	–	963,102
Loans and advances to customers held at amortised cost	8,203,402	4,838,749	3,778,032	582,220	652,199	1,333,677	19,388,279	(1,071,499)	18,316,780
– personal	3,097,600	659,895	–	–	94,453	196,312	4,048,260	(173,453)	3,874,807
– corporate and commercial	4,653,931	4,166,531	3,710,618	350,304	542,551	1,089,028	14,512,963	(865,640)	13,647,323
– non-bank financial institutions	451,871	12,323	67,414	231,916	15,195	48,337	827,056	(32,406)	794,650
Loans and advances to banks held at amortised cost	4,970,773	1,112,464	119,965	–	–	–	6,203,202	–	6,203,202
Reverse repurchase agreements – non-trading	927,235	19,242	440,777	–	–	–	1,387,254	–	1,387,254
Financial investments	1,778,092	–	4,850,179	–	–	–	6,628,271	–	6,628,271
– treasury and other eligible bills	248,617	–	1,077,695	–	–	–	1,326,312	–	1,326,312
– debt securities	1,529,475	–	3,772,484	–	–	–	5,301,959	–	5,301,959
Assets held for sale	–	–	–	–	–	–	–	–	–
Other assets	19,648	152,263	394,197	4,874	12,110	4,448	587,540	–	587,540
– endorsements and acceptances	14,380	152,136	273,370	4,874	12,110	4,448	461,318	–	461,318
– accrued income and other	5,268	127	120,827	–	–	–	126,222	–	126,222
At 31 Dec 2017	17,273,769	6,491,249	9,971,069	595,610	664,309	1,338,125	36,334,131	(1,071,499)	35,262,632

9 Fair values of financial instruments

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2018 are consistent with those applied in the *Annual Report and Accounts 2017.*

Financial instruments carried at fair value and bases of valuation

	30 Jun 2018				31 Dec 2017			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**		Quoted market price	Using observable inputs	With significant unobservable inputs	
	US$000	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000
Recurring fair value measurements								
Assets								
Trading assets	**–**	**137,801**	**79,978**	**217,779**	–	440,624	–	440,624
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**–**	**–**	**54,882**	**54,882**	N/A	N/A	N/A	N/A
Derivatives	**–**	**1,060,693**	**4,627**	**1,065,320**	–	960,097	3,005	963,102
Financial investments	**1,817,707**	**3,722,120**	**358,463**	**5,898,290**	–	6,628,271	118,233	6,746,504
Liabilities								
Trading liabilities	**–**	**93,653**	**–**	**93,653**	–	1,309,860	–	1,309,860
Financial liabilities designated at fair value	**–**	**1,845,976**	**–**	**1,845,976**	–	739,425	–	739,425
Derivatives	**–**	**1,074,816**	**60**	**1,074,876**	–	949,327	3,005	952,332

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each semi-annual reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

During 2018 there was a transfer of US$1,818m from Level 2 to Level 1 Financial Investments. There were no corresponding transfers in 2017. The transfers from Level 2 to Level 3 during the year are are shown in 'Movement in Level 3 financial instruments' on page 21.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities	
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Derivatives	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Private equity including strategic investments	**47,540**	**–**	**54,882**	**–**	**102,422**	**–**	**–**
Other derivatives	**–**	**–**	**–**	**4,627**	**4,627**	**60**	**60**
Other portfolios	**310,923**	**79,978**	**–**	**–**	**390,901**	–	–
At 30 Jun 2018	**358,463**	**79,978**	**54,882**	**4,627**	**497,950**	**60**	**60**
Private equity including strategic investments	118,233	–	–	–	118,233	–	–
Other derivatives	–	–	–	3,005	3,005	3,005	3,005
Other portfolios	–	–	–	–	–	–	–
At 31 Dec 2017	118,233	–	–	3,005	121,238	3,005	3,005

The basis for determining the fair value of the financial instruments in the table above is explained in the *Annual Report and Accounts 2017.*

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Derivatives
	US$000	US$000	US$000	US$000	US$000
At 1 Jan 2018	**60,094**	**–**	**58,139**	**3,005**	**3,005**
Total losses recognised in profit or loss	**–**	**–**	**(3,257)**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**(3,257)**	**–**	**–**
Total losses recognised in other comprehensive income	**(12,488)**	**–**	**–**	**–**	**–**
– financial investments: fair value losses	**(12,488)**	**–**	**–**	**–**	**–**
Sales	**(66)**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**–**	**(2,945)**	**(2,945)**
Transfers in	**310,923**	**79,978**	**–**	**4,567**	**–**
At 30 Jun 2018	**358,463**	**79,978**	**54,882**	**4,627**	**60**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2018	**–**	**–**	**(3,257)**	**4,627**	**(60)**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**–**	**–**	**4,627**	**(60)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**(3,257)**	**–**	**–**

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities
	Available for sale	Held for trading	Designated at fair value	Derivatives	Derivatives
	US$000	$000	US$000	US$000	US$000
At 1 Jan 2017	70,480	—	—	7,230	7,230
Total gains/(losses) recognised in profit or loss	(2,870)	—	—	59,577	59,577
– trading income excluding net interest income	—	—	—	59,577	59,577
– gains less losses from financial investments	(2,870)	—	—	—	—
Total losses recognised in other comprehensive income	(2,119)	—	—	—	—
– available-for-sale investments: fair value losses	(2,160)	—	—	—	—
– exchange differences	41	—	—	—	—
Purchases	61,346	—	—	—	—
Sales	(8,604)	—	—	—	—
Transfers out	—	—	—	(63,802)	(63,802)
At 31 Dec 2017	118,233	—	—	3,005	3,005
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2017	(2,647)	—	—	65,554	(65,554)
– trading income/(expense) excluding net interest income	—	—	—	65,554	(65,554)
– gains less losses from financial investments	(2,647)	—	—	—	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

		30 Jun 2018				31 Dec 2017			
		Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
		Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	Footnote	**US$000**	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000
Derivatives, trading assets and trading liabilities	*1*	**42**	**(1,242)**	**—**	**—**	301	(301)	—	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**5,488**	**(2,744)**	**—**	**—**	N/A	N/A	N/A	N/A
Financial investments		**—**	**—**	**4,754**	**(3,861)**	2,443	(1,222)	9,380	(4,690)
Total		**5,530**	**(3,986)**	**4,754**	**(3,861)**	2,744	(1,523)	9,380	(4,690)

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

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

	30 Jun 2018				31 Dec 2017			
	Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	US$000	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000
Private equity including strategic investments	**5,488**	**(2,744)**	**4,754**	**(2,377)**	2,443	(1,222)	9,380	(4,690)
Other derivatives	**42**	**(42)**	**—**	**—**	301	(301)	—	—
Other portfolios	**—**	**(1,200)**	**—**	**(1,484)**	—	—	—	—
Total	**5,530**	**(3,986)**	**4,754**	**(3,861)**	2,744	(1,523)	9,380	(4,690)

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. The statistical techniques aim to apply a 95% confidence interval. When parameters are not amenable to statistical analysis, the quantification of uncertainty is judgemental, but is also guided by the 95% confidence interval.

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

Key unobservable inputs to Level 3 financial instruments

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2018. The core range of inputs is the estimated range within which 90% of the inputs fall.

There has been no change to the key unobservable inputs to Level 3 financial instruments and inter-relationships therein which are detailed in the *Annual Report and Accounts 2017*.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value					
	Assets	Liabilities	Full range of inputs		Core range of inputs	
	US$000	US$000	Lower	Higher	Lower	Higher
Private equity including strategic investments	**102,422**	**–**	**n/a**	**n/a**	**n/a**	**n/a**
FX derivatives - FX options	**60**	**60**	**3.0%**	**4.4%**	**3.0%**	**4.4%**
FX derivatives - others	**4,567**	**–**	**n/a**	**n/a**	**n/a**	**n/a**
EM sovereign bonds	**390,901**	**–**	**n/a**	**n/a**	**n/a**	**n/a**
At 30 Jun 2018	**497,950**	**60**				
Private equity including strategic investments	118,233	–	n/a	n/a	n/a	n/a
FX derivatives - FX options	3,005	3,005	0.4%	5.0%	0.4%	5.0%
At 31 Dec 2017	121,238	3,005				

10 Contingent liabilities, contractual commitments and guarantees

	30 Jun 2018	31 Dec 2017
	US$000	US$000
Guarantees and other contingent liabilities		
Guarantees	**15,345,992**	14,361,374
Commitments		
Documentary credits and short-term trade-related transactions	**686,986**	620,512
Forward asset purchases	**151,434**	–
Standby facilities, credit lines and other commitments to lend	**14,924,608**	16,310,919
Total	**15,763,028**	16,931,431

The above table discloses the nominal principal amounts, which represent the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

11 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2018. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related

(Matters relevant to the group as a subsidiary of HSBC operating in the Middle East)

In October 2010, HSBC Bank USA entered into a consent cease and desist order with the Office of the Comptroller of the Currency (the 'OCC'), and HSBC North America Holdings Inc. ('HNAH') entered into a consent order with the Federal Reserve Board (the 'FRB'). In 2012, HSBC Bank USA further entered into an enterprise-wide compliance consent order with the OCC (each an 'Order' and together, the 'Orders'). In 2012, an additional consent order was entered into with the OCC that required HSBC Bank USA to correct the circumstances noted in the OCC's report and imposed restrictions on HSBC Bank USA acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, without the OCC's approval. In June 2018, the OCC terminated the 2010 consent cease-and-desist order and the 2012 enterprise-wide compliance consent order after determining that HSBC Bank USA had satisfied the requirements of those respective orders. The 2010 consent cease-and-desist order entered into with the FRB and the 2012 additional consent order entered into with the OCC remain open.

These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to the Bank Secrecy Act ('BSA') and anti-money laundering ('AML') compliance. While these Orders remain open, HSBC Bank USA and HNAH believe that they have taken appropriate steps to bring themselves into compliance with the requirements of the Orders.

In December 2012, HSBC Holdings, HNAH and HSBC Bank USA entered into agreements with US and UK government and regulatory agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement with, among others, the DoJ (the 'US DPA'); and HSBC Holdings consented to a cease-and-desist order, and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB.

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK FCA to comply with certain forward-looking AML and sanctions-related obligations. In addition, HSBC Bank USA entered into civil money penalty orders with the Financial Crimes Enforcement Network of the US Treasury Department ('FinCEN') and the OCC.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1.9 billion to US authorities and undertook various further obligations, including, among others, to retain an independent compliance monitor (who is, for FCA purposes, a 'skilled person' under section 166 of the Financial Services and Markets Act) to produce annual assessments of the Group's AML and sanctions compliance programme (the 'Monitor'). Under the cease and desist order issued by the FRB in 2012, the Monitor also serves as an

independent consultant to conduct annual assessments. In February 2018, the Monitor delivered his fourth annual follow-up review report.

Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions compliance issues that HSBC is reviewing further with the DoJ, FRB and/or FCA. In particular, the DoJ is investigating HSBC's handling of a corporate customer's accounts. In addition, FinCEN as well as the Civil Division of the US Attorney's Office for the Southern District of New York are investigating the collection and transmittal of third-party originator information in certain payments instructed over HSBC's proprietary payment systems. The FCA is also conducting an investigation into HSBC Bank plc's compliance with UK money laundering regulations and financial crime systems and controls requirements. HSBC is cooperating with all of these investigations

In December 2017, the US DPA expired and the charges deferred by the US DPA were dismissed. The Monitor will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

Since November 2014, four lawsuits have been filed in federal court in New York and Illinois, against the group and various other HSBC companies and others, on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in Iraq and Jordan. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. The group is no longer a defendant in two of these cases, one of which was withdrawn in its entirety against all defendants. The remaining actions, details of which are below, are at early stages.

In November 2014, a complaint was filed in the US District Court for the Eastern District of New York on behalf of representatives of US persons alleged to have been killed or injured in Iraq between April 2004 and November 2011. The complaint was filed against HSBC Holdings, HSBC Bank plc, HSBC Bank USA and HSBC Bank Middle East Limited, as well as other non-HSBC banks and the Islamic Republic of Iran (together, the 'Defendants'). The plaintiffs allege that Defendants violated the US Anti-Terrorism Act ('US ATA') by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. The Defendants filed a Motion to Dismiss in May 2015 and an amended Motion to Dismiss in September 2017, following the filing by the Plaintiffs of a Second Amended Complaint in July 2017. In July 2017, the various motions before the Court were referred for review and for the issuance of a judicial report and recommendations prior to being decided.

In November 2017, a complaint was filed in the Southern District of New York on behalf of representatives of US soldiers killed or injured whilst serving in Iraq. The complaint was filed against HSBC Holdings plc, HSBC Bank plc, HSBC Bank Middle East Limited, HSBC Bank USA, N.A, HSBC North America Holdings Inc. and other non-HSBC Banks, Deutsche Bank AG, Barclays Bank plc, Standard Chartered Bank, Royal Bank of Scotland, N.V., Royal Bank of Scotland plc, Credit Suisse AG, Bank Saderat plc and Commerzbank AG, Commerzbank AG, New York Branch, BNP Paribas S.A., Credit Agricole S.A., Credit Agricole Corporate & Investment Bank (together the 'Defendants'). The plaintiffs allege that the HSBC defendants violated the US ATA by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US and also allege breaches of US Justice Against Sponsors of Terrorism Act ('JASTA'). The Defendants have filed a Motion to Dismiss the case and the proceedings remain at a very early stage.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these lawsuits, including the timing or any possible impact on HSBC, which could be significant.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the US, EU, Switzerland, Brazil, South Korea and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In May 2015, the DoJ resolved its investigations with respect to five non-HSBC financial institutions, four of whom agreed to plead guilty to criminal charges of conspiring to manipulate prices in the foreign exchange spot market, and resulting in the imposition of criminal fines in the aggregate of more than US$2.5 billion. Additional penalties were imposed at the same time by the FRB and other banking regulators. HSBC was not a party to these resolutions.

In August 2016, the DoJ indicted two now-former HSBC employees and charged them with wire fraud and conspiracy relating to a 2011 foreign exchange transaction. HSBC was not named as a defendant in the indictment. One of the former employees was found guilty in October 2017 of one count of conspiracy to commit wire fraud and eight counts of wire fraud.

In September 2017, HBSC Holdings and HNAH consented to a civil money penalty order with the FRB in connection with its investigation into HSBC's historic foreign exchange activities. Under the terms of the order, HSBC Holdings and HNAH agreed to undertake certain remedial steps and to pay a civil money penalty to the FRB. In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Fraud Division of the Do covering conduct in 2010 and 2011, and received a declination from the Antitrust Division of the DoJ, concluding its investigation into HSBC's historic foreign exchange activities. Under the terms of the deferred prosecution agreement, HSBC agreed to pay a penalty and restitution of US$101.5 million and undertook various further obligations, including, among others, to continue to cooperate fully with the DoJ in any and all investigations, not to commit any crime under US federal law subsequent to the signing of the agreement and to implement enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ.

12 Related party transactions

There were no changes in the related party transactions described in the *Annual Report and Accounts 2017* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2018. All related party transactions that took place in the half-year to 30 June 2018 were similar in nature to those disclosed in the *Annual Report and Accounts 2017.*

13 Events after the balance sheet date

On 6 August 2018 the group completed the purchase of land, building and other fixed assets for US$227 million. The building is acquired for use as the regional management office.

There have been no other material events after the reporting period which would require disclosure or adjustment to these interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 6 August 2018 and authorised for issue.

Independent Review Report to HSBC Bank Middle East Limited

Review report on condensed consolidated interim financial information to the board of directors of HSBC Bank Middle East Limited

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of HSBC Bank Middle East Limited and its subsidiaries (the 'group') as at 30 June 2018 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union.

PricewaterhouseCoopers Limited

Place: Dubai, United Arab Emirates

Date: 6 August 2018

Audit Principal: David R Cox

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PricewaterhouseCoopers Limited is registered with the Dubai Financial Services Authority.

HSBC BANK MIDDLE EAST LIMITED

Incorporated in the Dubai International Financial Centre number – 2199

Regulated by the Dubai Financial Services Authority.

REGISTERED OFFICE

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