HSBC Bank Middle East Limited

Interim Financial Statements 2019

HSBC

Contents

Presentation of information

This document comprises the *Interim Financial Statements 2019* 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 2018* and therefore focuses on events during the first six months of 2019 rather than duplicating information previously reported.

Condensed Financial Statements

Consolidated income statement

		Half-year to	
		30 Jun 2019	30 Jun 2018
	Notes	**US$000**	US$000
Net interest income		**498,726**	454,156
– interest income		**643,381**	572,379
– interest expense		**(144,655)**	(118,223)
Net fee income		**227,442**	214,130
– fee income		**282,473**	265,235
– fee expense		**(55,031)**	(51,105)
Net income from financial instruments held for trading or managed on a fair value basis		**107,163**	134,542
Changes in fair value of long-term debt and related derivatives		**(267)**	4,664
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**(236)**	(1,468)
Net (losses)/gains from financial investments		**(32)**	1,201
Dividend income		**363**	1,236
Other operating income, net		**25,550**	35,645
Net operating income before change in expected credit losses and other credit impairment charges		**858,709**	844,106
Change in expected credit losses and other credit impairment charges	*8*	**(59,110)**	(59,232)
Net operating income		**799,599**	784,874
Employee compensation and benefits		**(292,198)**	(275,169)
General and administrative expenses		**(153,253)**	(166,194)
Depreciation and impairment of property, plant and equipment		**(16,357)**	(5,558)
Amortisation and impairment of intangible assets		**(4,280)**	(2,619)
Total operating expenses		**(466,088)**	(449,540)
Operating profit		**333,511**	335,334
Share of profit in associates		**407**	207
Profit before tax		**333,918**	335,541
Tax expense		**(45,646)**	(52,109)
Profit for the period		**288,272**	283,432
Attributable to:			
– shareholders of the parent company		**288,224**	283,416
– non-controlling interests		**48**	16
Profit for the period		**288,272**	283,432

The accompanying notes on pages 7 to 16 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2019	30 Jun 2018
	US$000	US$000
Profit for the period	**288,272**	283,432
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value though other comprehensive income	**11,294**	(14,006)
– fair value gains/(losses)	**12,669**	(14,416)
– fair value losses/(gains) transferred to the income statement on disposal	**(756)**	160
– expected credit losses recognised in income statement	**162**	(242)
– income taxes	**(781)**	492
Cash flow hedges	**44,718**	(22,858)
– fair value gains/(losses)	**49,584**	(25,398)
– income taxes	**(4,866)**	2,540
Exchange differences	**(2,327)**	(4,420)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(3,064)**	(5,696)
– before income taxes	**(3,064)**	(5,696)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(5,570)**	3,084
– before income taxes	**(5,570)**	3,084
Equity instruments designated at fair value through other comprehensive income	**1,835**	(12,482)
– fair value gains/(losses)	**1,835**	(12,482)
Other comprehensive income / (expense) for the period, net of tax	**46,886**	(56,378)
Total comprehensive income for the period	**335,158**	227,054
Attributable to:		
– shareholders of the parent company	**335,110**	227,038
– non-controlling interests	**48**	16
Total comprehensive income for the period	**335,158**	227,054

The accompanying notes on pages 7 to 16 form an integral part of these financial statements.

Consolidated statement of financial position

		At	
		30 Jun	31 Dec
		2019	2018
	Notes	**US$000**	US$000
Assets			
Cash and balances at central banks		**623,650**	1,170,359
Items in the course of collection from other banks		**97,819**	81,984
Trading assets	*9*	**179,921**	246,156
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**45,930**	47,839
Derivatives	*9*	**1,070,702**	953,222
Loans and advances to banks		**5,653,923**	5,057,308
Loans and advances to customers	*8*	**20,006,741**	20,073,375
Reverse repurchase agreements – non-trading		**718,581**	755,076
Financial investments	*9*	**8,215,341**	5,734,776
Prepayments, accrued income and other assets		**1,587,158**	1,170,067
Current tax assets		**10**	19
Interests in associates		**2,830**	2,423
Intangible assets		**42,733**	31,465
Deferred tax assets		**202,549**	204,982
Total assets		**38,447,888**	35,529,051
Liabilities and equity			
Liabilities			
Deposits by banks		**2,680,840**	1,582,477
Customer accounts		**23,091,416**	21,823,507
Repurchase agreements – non-trading		**—**	2,999
Items in the course of transmission to other banks		**112,224**	263,907
Trading liabilities	*9*	**28,471**	59,023
Financial liabilities designated at fair value	*6 ,9*	**2,022,542**	2,017,966
Derivatives	*9*	**1,075,507**	951,976
Debt securities in issue	*7*	**2,360,676**	2,490,371
Accruals, deferred income and other liabilities		**2,242,377**	1,615,180
Current tax liabilities		**89,290**	106,394
Provisions		**57,472**	66,151
Total liabilities		**33,760,815**	30,979,951
Equity			
Called up share capital		**931,055**	931,055
Share premium account		**61,346**	61,346
Other reserves		**(130,958)**	(190,204)
Retained earnings		**3,821,286**	3,742,607
Total shareholders' equity		**4,682,729**	4,544,804
Non-controlling interests		**4,344**	4,296
Total equity		**4,687,073**	4,549,100
Total liabilities and equity		**38,447,888**	35,529,051

The accompanying notes on pages 7 to 16 form an integral part of these financial statements.

Neslihan Erkazanci

Chief Financial Officer

Consolidated statement of cash flows

	Half-year to	
	30 Jun 2019	30 Jun 2018
	US$000	US$000
Profit before tax	**333,918**	335,541
Cash flows from operating activities		
Adjustments for:		
Share of profits in associates	**(407)**	(207)
Other non-cash items included in profit before tax	**46,520**	30,481
Change in operating assets	**(247,755)**	(4,864,623)
Change in operating liabilities	**2,706,303**	1,249,513
Elimination of exchange differences[1]	**(30,540)**	(8,654)
Tax paid	**(62,741)**	(69,990)
Net cash from/(used) in operating activities	**2,745,298**	(3,327,939)
Cash flows from investing activities		
Purchase of financial investments	**(6,463,063)**	(3,435,104)
Proceeds from the sale and maturity of financial investments	**4,742,604**	4,532,420
Net cash flows from the purchase and sale of property, plant and equipment	**(17,180)**	(9,149)
Net investment in intangible assets	**(15,551)**	(11,381)
Net cash (used) in/from investing activities	**(1,753,190)**	1,076,786
Cash flows from financing activities		
Dividends paid to shareholders of the parent company	**(200,000)**	(190,000)
Net cash used in financing activities	**(200,000)**	(190,000)
Net increase / (decrease) in cash and cash equivalents	**792,108**	(2,441,153)
Cash and cash equivalents at 1 Jan[2]	**3,730,753**	5,798,343
Exchange differences in respect of cash and cash equivalents	**33,127**	4,127
Cash and cash equivalents at 30 Jun[2]	**4,555,988**	3,361,317

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.*
2 *At 30 June 2019, HSBC changed its accounting practice to include settlement accounts with bank counterparties of one month or less on a net basis. Comparatives have been re-presented and also include other cash equivalents not included in 2018 cash and cash equivalents. The net effect of these changes increased cash and cash equivalents by $40m (30 Jun 2018: $263m and 31 Dec 2018: $132m). Further, Cash and cash equivalents include mandatory deposits at central banks which are not available for use by the group and the presentation has been aligned to the HSBC Group.*

The accompanying notes on pages 7 to 16 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	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 1 Jan 2019	992,401	3,742,607	(32,143)	(19,396)	(123,344)	(15,321)	4,544,804	4,296	4,549,100
Profit for the period	–	288,224	–	–	–	–	288,224	48	288,272
Other comprehensive income (net of tax)	–	(10,280)	13,133	44,717	(684)	–	46,886	–	46,886
– debt instruments at fair value through other comprehensive income	–	–	11,294	–	–	–	11,294	–	11,294
– equity instruments designated at fair value through other comprehensive income	–	–	1,835	–	–	–	1,835	–	1,835
– cash flow hedges	–	–	–	44,718	–	–	44,718	–	44,718
– changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	(5,570)	–	–	–	–	(5,570)	–	(5,570)
– remeasurement of defined benefit asset/liability	–	(3,064)	–	–	–	–	(3,064)	–	(3,064)
– exchange differences	–	(1,646)	4	(1)	(684)	–	(2,327)	–	(2,327)
Total comprehensive income for the period	–	277,944	13,133	44,717	(684)	–	335,110	48	335,158
Dividends to shareholders	–	(200,000)	–	–	–	–	(200,000)	–	(200,000)
Exercise and lapse of share options and vesting of share awards	–	(5,770)	–	–	–	–	(5,770)	–	(5,770)
Cost of share-based payment arrangements	–	6,430	–	–	–	–	6,430	–	6,430
Other movements	–	75	2,080	–	–	–	2,155	–	2,155
At 30 Jun 2019	992,401	3,821,286	(16,930)	25,321	(124,028)	(15,321)	4,682,729	4,344	4,687,073
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
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

The accompanying notes on pages 7 to 16 form an integral part of these financial statements.

Notes on the Condensed 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 B.V. 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 2018. These interim condensed consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2018*.

At 30 June 2019, there were no unendorsed standards effective for the half-year to 30 June 2019 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 2019

The group has adopted IFRS 16 'Leases' from 1 January 2019. The standard has 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 the way in which finance leases were accounted for under IAS 17 'Leases'. Lessees will now recognise a right of use ('ROU') 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. At 1 January 2019, the group has adopted the standard using a modified retrospective approach where the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated.

The implementation increased assets (ROU assets) by US$42.4 million and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

On adoption of IFRS 16, we recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised in 'other liabilities' and measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The associated right of use ('ROU') assets were recognised in 'other assets' and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on balance sheet at 31 December 2018. In addition, the following practical expedients permitted by the standard were applied:

- reliance was placed on previous assessments on whether leases were onerous;
- operating leases with a remaining lease term of less than 12 months at 1 January 2019 were treated as short-term leases; and
- initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

(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. There was no change in the current period to the critical accounting estimates and judgements applied in 2018, which are stated in the *Annual Report and Accounts 2018*.

(c) Composition of the group

There were no changes in the composition of the group in the half-year to 30 June 2019.

(d) Future accounting developments

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 2018*, as are the methods of computation.

3 Dividends

Dividends paid to shareholders of the parent company

	Half-year to			
	30 Jun 2019		30 Jun 2018	
	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	**0.1074**	**100,000**	0.1504	140,000
In respect of current year:				
– first interim dividend	**0.1074**	**100,000**	0.0537	50,000
Total	**0.2148**	**200,000**	0.2041	190,000

4 Segment analysis

The basis used to identify the group's reporting segments is discussed in the *Annual Report and Accounts 2018.*

Profit/(loss) for the period

	2019					
	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	**205,221**	**125,229**	**166,929**	**—**	**1,347**	**498,726**
Net fee income/(expense)	**58,857**	**69,267**	**101,186**	**—**	**(1,868)**	**227,442**
Net income from financial instruments held for trading or managed on a fair value basis	**18,828**	**14,942**	**59,391**	**—**	**14,002**	**107,163**
Other income	**2,973**	**4,317**	**3,200**	**—**	**14,888**	**25,378**
Net operating income before change in expected credit losses and other credit impairment charges	**285,879**	**213,755**	**330,706**	**—**	**28,369**	**858,709**
Change in expected credit losses and other credit impairment charges	**(25,839)**	**(31,450)**	**(1,395)**	**—**	**(426)**	**(59,110)**
Net operating income	**260,040**	**182,305**	**329,311**	**—**	**27,943**	**799,599**
Total operating expenses	**(169,135)**	**(105,214)**	**(130,433)**	**—**	**(61,306)**	**(466,088)**
Operating profit	**90,905**	**77,091**	**198,878**	**—**	**(33,363)**	**333,511**
Share of profit in associates	**—**	**—**	**—**	**—**	**407**	**407**
Profit before tax	**90,905**	**77,091**	**198,878**	**—**	**(32,956)**	**333,918**
By geographical region						
U.A.E.	**77,963**	**44,277**	**117,905**	**—**	**(33,181)**	**206,964**
Qatar	**4,860**	**20,185**	**40,467**	**—**	**(1,315)**	**64,197**
Rest of Middle East	**8,082**	**12,629**	**40,506**	**—**	**1,540**	**62,757**
Profit before tax	**90,905**	**77,091**	**198,878**	**—**	**(32,956)**	**333,918**

Half-year to 30 Jun	2018					
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	(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

** inter-segment eliminations are booked under Corporate Centre.*

Balance sheet information

At 30 Jun	Retail Banking and Wealth Management US$000	Commercial Banking US$000	Global Banking and Markets US$000	Global Private Banking US$000	Corporate Centre US$000	Total US$000
	2019					
Loans and advances to customers (net)	**3,658,293**	**7,151,174**	**9,197,274**	**—**	**—**	**20,006,741**
Total assets	**3,684,183**	**7,653,000**	**13,028,506**	**—**	**14,082,199**	**38,447,888**
Customer accounts	**11,300,231**	**4,383,392**	**7,407,793**	**—**	**—**	**23,091,416**
Total liabilities	**11,482,440**	**5,913,765**	**11,255,050**	**—**	**5,109,560**	**33,760,815**
At 31 Dec	2018					
Loans and advances to customers (net)	3,674,797	6,412,781	9,985,797	—	—	20,073,375
Total assets	3,695,109	6,800,324	13,624,166	—	11,409,452	35,529,051
Customer accounts	10,520,824	4,147,079	7,105,591	—	50,013	21,823,507
Total liabilities	10,683,194	5,321,362	10,775,700	—	4,199,695	30,979,951

Other financial information

Net operating income by global business

Half-year to 30 Jun	Footnotes	Retail Banking and Wealth Management US$000	Commercial Banking US$000	Global Banking and Markets US$000	Global Private Banking US$000	Corporate Centre US$000	Total US$000
		2019					
Net operating income	1	**285,879**	**213,755**	**330,706**	**—**	**28,369**	**858,709**
– external		**185,396**	**258,819**	**367,723**	**—**	**46,771**	**858,709**
– internal		**100,483**	**(45,064)**	**(37,017)**	**—**	**(18,402)**	**—**
Half-year to 30 Jun		2018					
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)	—

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

5 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities and non-trading repurchase and reverse repurchase agreements are explained in the *Annual Report and Accounts 2018*.

Fair values of financial instruments not carried at fair value

	At 30 Jun 2019		At 31 Dec 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	US$000	**US$000**	US$000	US$000
Assets				
Loans and advances to banks	**5,653,923**	**5,655,890**	5,057,308	5,045,941
Loans and advances to customers	**20,006,741**	**19,807,020**	20,073,375	19,726,291
Reverse repurchase agreements – non-trading	**718,581**	**718,581**	755,076	755,076
Liabilities				
Deposits by banks	**2,680,840**	**2,685,273**	1,582,477	1,582,218
Customer accounts	**23,091,416**	**23,203,191**	21,823,507	21,912,519
Repurchase agreements – non-trading	**—**	**—**	2,999	2,999
Debt securities in issue	**2,360,676**	**2,319,052**	2,490,371	2,459,605

6 Financial liabilities designated at fair value

	At	
	30 Jun 2019	31 Dec 2018
	US$000	US$000
Deposits by bank and customer accounts	**283,969**	259,853
Debt securities in issue	**1,738,573**	1,758,113
Total	**2,022,542**	2,017,966

At 30 June 2019, the accumulated amount of change in fair value attributable to changes in credit risk was a loss of US$9.9 million (30 June 2018: US$20.1 million loss).

7 Debt securities in issue

	30 Jun 2019	31 Dec 2018
	Carrying amount	Carrying amount
	US$000	US$000
Medium-term notes	**3,149,249**	3,298,484
Non-equity preference shares	**950,000**	950,000
Total debt securities in issue	**4,099,249**	4,248,484
Included within:		
– financial liabilities designated at fair value (Note 6)	**(1,738,573)**	(1,758,113)
Total	**2,360,676**	2,490,371

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 2018.*

There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2018.*

Summary of credit risk

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

		At 30 Jun 2019		At 31 Dec 2018	
		Gross carrying/ nominal amount	**Allowance for ECL**[1]	Gross carrying/ nominal amount	Allowance for ECL[1]
	Footnotes	**US$000**	**US$000**	US$000	US$000
Loans and advances to customers at amortised cost		**21,057,207**	**(1,050,466)**	21,132,610	(1,059,235)
Loans and advances to banks at amortised cost		**5,655,463**	**(1,540)**	5,058,866	(1,558)
Other financial assets measured at amortised cost		**2,590,048**	**(9,583)**	2,784,969	(632)
– cash and balances at central banks		**623,909**	**(259)**	1,170,499	(140)
– items in the course of collection from other banks		**97,819**	**—**	81,984	—
– reverse repurchase agreements – non-trading		**718,615**	**(34)**	755,084	(8)
– prepayments, accrued income and other assets	2	**1,149,705**	**(9,290)**	777,402	(484)
Total gross carrying amount on balance sheet		**29,302,718**	**(1,061,589)**	28,976,445	(1,061,425)
Loans and other credit-related commitment		**5,821,362**	**(2,639)**	5,648,633	(2,736)
Financial guarantee and similar contract		**15,335,825**	**(28,560)**	14,416,716	(30,302)
Total nominal amount off balance sheet	3	**21,157,187**	**(31,199)**	20,065,349	(33,038)

	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')	**8,174,302**	**(1,274)**	5,695,573	(1,112)

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

	2019	2018
	Allowance for ECL	Allowance for ECL
	US$000	US$000
At 1 Jan	**(1,094,463)**	(1,203,188)
Net remeasurement of ECL arising from transfer of stage	**(6,019)**	4,315
Net new lending and changes to risk parameters	**(67,564)**	(74,983)
Assets written off	**98,467**	81,670
Foreign exchange	**(216)**	130
Others	**(22,993)**	1,191
At 30 Jun	**(1,092,788)**	(1,190,865)
ECL income statement charge for the period	**(73,583)**	(70,668)
Recoveries	**18,561**	11,467
Others	**(4,088)**	(31)
Total ECL income statement charge for the period	**(59,110)**	(59,232)

The following table provides an overview of the group's credit risk by stage, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised.

POCI: Purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 30 June 2019

	Gross carrying/nominal amount					**Allowance for ECL**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Loans and advances to customers at amortised cost	**17,514,137**	**2,116,550**	**1,389,742**	**36,778**	**21,057,207**	**(79,167)**	**(77,194)**	**(857,327)**	**(36,778)**	**(1,050,466)**
Loans and advances to banks at amortised cost	**5,653,239**	**2,224**	**—**	**—**	**5,655,463**	**(1,527)**	**(13)**	**—**	**—**	**(1,540)**
Other financial assets measured at amortised cost	**2,413,298**	**168,296**	**8,454**	**—**	**2,590,048**	**(569)**	**(560)**	**(8,454)**	**—**	**(9,583)**
Loan and other credit-related commitments	**5,563,137**	**258,026**	**199**	**—**	**5,821,362**	**(2,419)**	**(220)**	**—**	**—**	**(2,639)**
Financial guarantee and similar contracts	**15,137,504**	**190,089**	**8,232**	**—**	**15,335,825**	**(7,656)**	**(20,904)**	**—**	**—**	**(28,560)**
At 30 Jun 2019	**46,281,315**	**2,735,185**	**1,406,627**	**36,778**	**50,459,905**	**(91,338)**	**(98,891)**	**(865,781)**	**(36,778)**	**(1,092,788)**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2018

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Loans and advances to customers at amortised cost	17,617,241	2,177,358	1,301,233	36,778	21,132,610	(65,826)	(91,814)	(864,817)	(36,778)	(1,059,235)
Loans and advances to banks at amortised cost	5,048,916	9,950	—	—	5,058,866	(1,412)	(146)	—	—	(1,558)
Other financial assets measured at amortised cost	2,687,842	97,127	—	—	2,784,969	(339)	(293)	—	—	(632)
Loan and other credit-related commitments	5,351,317	296,712	604	—	5,648,633	(1,912)	(824)	—	—	(2,736)
Financial guarantee and similar contracts	11,818,716	2,494,000	104,000	—	14,416,716	(7,426)	(17,159)	(5,717)	—	(30,302)
At 31 Dec 2018	42,524,032	5,075,147	1,405,837	36,778	49,041,794	(76,915)	(110,236)	(870,534)	(36,778)	(1,094,463)

Gross loans and advances to customers by industry sector

	Gross loans and advances to customers	
	Total	**As a % of total gross loans**
At 30 Jun 2019	**US$000**	**%**
Personal		
– residential mortgages	**1,974,046**	**9.37%**
– other personal	**1,904,935**	**9.05%**
	3,878,981	**18.42%**
Corporate and commercial		
– commercial, industrial and international trade	**9,583,843**	**45.51%**
– commercial real estate	**1,041,359**	**4.95%**
– other property-related	**1,931,713**	**9.17%**
– government	**1,641,826**	**7.80%**
– other commercial	**2,747,777**	**13.05%**
	16,946,518	**80.48%**
Financial		
– non-bank financial institutions	**231,708**	**1.10%**
Total gross loans and advances to customers	**21,057,207**	**100.00%**
Impaired loans		
– as a percentage of gross loans and advances to customers	**6.77%**	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	**4.99%**	
At 31 Dec 2018		
Personal		
– residential mortgages	2,008,677	9.51%
– other personal	1,908,830	9.03%
	3,917,507	18.54%
Corporate and commercial		
– commercial, industrial and international trade	9,347,222	44.23%
– commercial real estate	912,243	4.32%
– other property-related	1,952,717	9.24%
– government	1,640,769	7.76%
– other commercial	3,114,514	14.74%
	16,967,465	80.29%
Financial		
– non-bank financial institutions	247,638	1.17%
Total gross loans and advances to customers	21,132,610	100.00%
Impaired loans		
– as a percentage of gross loans and advances to customers	6.33%	
Total impairment allowances		
– as a percentage of gross loans and advances to customers	5.01%	

9 Fair values of financial instruments

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2019 are consistent with those applied in the *Annual Report and Accounts 2018.*

Financial instruments carried at fair value and bases of valuation

	30 Jun 2019				31 Dec 2018			
	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	**—**	**99,943**	**79,978**	**179,921**	—	166,201	79,955	246,156
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**—**	**—**	**45,930**	**45,930**	—	—	47,839	47,839
Derivatives	**—**	**1,060,367**	**10,335**	**1,070,702**	—	953,222	—	953,222
Financial investments	**3,414,273**	**4,539,983**	**261,085**	**8,215,341**	2,099,446	3,378,498	256,832	5,734,776
Liabilities								
Trading liabilities	**—**	**28,471**	**—**	**28,471**	—	59,023	—	59,023
Financial liabilities designated at fair value	**—**	**2,022,542**	**—**	**2,022,542**	—	2,017,966	—	2,017,966
Derivatives	**—**	**1,074,952**	**555**	**1,075,507**	—	951,976	—	951,976

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 2019 there was nil (2018: US$2,099m) transfer from Level 2 to Level 1 Financial Investments. The transfers from Level 2 to Level 3 during the year are shown in 'Movement in Level 3 financial instruments' on page 13.

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	**41,039**	**—**	**45,930**	**—**	**86,969**	**—**	**—**
Other derivatives	**—**	**—**	**—**	**10,335**	**10,335**	**555**	**555**
Other portfolios	**220,046**	**79,978**	**—**	**—**	**300,024**	—	—
At 30 Jun 2019	**261,085**	**79,978**	**45,930**	**10,335**	**397,328**	**555**	**555**
Private equity including strategic investments	39,203	—	47,839	—	87,042	—	—
Other derivatives	—	—	—	—	—	—	—
Other portfolios	217,629	79,955	—	—	297,584	—	—
At 31 Dec 2018	256,832	79,955	47,839	—	384,626	—	—

The basis for determining the fair value of the financial instruments in the table above is explained in the *Annual Report and Accounts 2018.*

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 2019	**256,832**	**79,955**	**47,839**	**—**	**—**
Total losses recognised in profit or loss	**—**	**23**	**(1,909)**	**—**	**—**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**23**	**—**	**—**	**—**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(1,909)**	**—**	**—**
Total gains recognised in other comprehensive income	**4,253**	**—**	**—**	**—**	**—**
– financial investments: fair value losses	**4,253**	**—**	**—**	**—**	**—**
Purchases	**—**	**—**	**—**	**10,335**	**555**
Sales	**—**	**—**	**—**	**—**	**—**
Settlements	**—**	**—**	**—**	**—**	**—**
Transfers in	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2019	**261,085**	**79,978**	**45,930**	**10,335**	**555**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2019	**—**	**23**	**(1,909)**	**—**	**—**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**23**	**—**	**—**	**—**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(1,909)**	**—**	**—**
At 1 Jan 2018	60,094	—	58,139	3,005	3,005
Total gains/(losses) recognised in profit or loss	—	—	(10,300)	—	—
– net income from financial instruments held for trading or managed on a fair value basis	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(10,300)	—	—
Total losses recognised in other comprehensive income	(20,819)	—	—	—	—
– financial investments: fair value losses	(20,819)	—	—	—	—
Purchases	—	—	—	—	—
Sales	(66)	—	—	—	—
Settlements	—	—	—	(3,005)	(3,005)
Transfers in	217,623	79,955			
At 31 Dec 2018	256,832	79,955	47,839	—	—
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2018	—	—	(10,300)	—	—
– net income from financial instruments held for trading or managed on a fair value basis	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(10,300)	—	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

		30 Jun 2019				31 Dec 2018			
		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
	Footnotes	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Derivatives, trading assets and trading liabilities	1	586	(8,322)	–	–	9	(1,809)	–	–
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		4,593	(2,297)	–	–	4,784	(2,392)	–	–
Financial investments		–	–	5,096	(3,021)	–	–	5,292	(3,141)
Total		**5,179**	**(10,619)**	**5,096**	**(3,021)**	4,793	(4,201)	5,292	(3,141)

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 2019				31 Dec 2018			
	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	4,593	(2,297)	4,151	(2,076)	4,784	(2,392)	5,292	(1,961)
Other derivatives	586	(6,522)	–	–	9	(9)	–	–
Other portfolios	–	(1,800)	945	(945)	–	(1,800)	–	(1,180)
Total	**5,179**	**(10,619)**	**5,096**	**(3,021)**	4,793	(4,201)	5,292	(3,141)

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 2019. 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 2018*.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value		Full range of inputs		Core range of inputs	
	Assets	Liabilities	Lower	Higher	Lower	Higher
	US$000	US$000				
Private equity including strategic investments	86,969	–	n/a	n/a	n/a	n/a
FX derivatives – FX options	555	555	0.3%	1.1%	0.3%	1.1%
Other derivatives – credit	7,076	–	0.3%	0.7%	0.3%	0.7%
FX derivatives – others	2,704	–	-0.7%	-1.7%	-0.7%	-1.7%
EM bonds	300,024	–	100%	100%	100%	100%
At 30 Jun 2019	**397,328**	**555**				
Private equity including strategic investments	87,048	–	n/a	n/a	n/a	n/a
FX derivatives – FX options	–	–	n/a	n/a	n/a	n/a
Other derivatives – credit	–	–	n/a	n/a	n/a	n/a
FX derivatives – others	–	–	n/a	n/a	n/a	n/a
EM bonds	297,578	–	100%	100%	100%	100%
At 31 Dec 2018	384,626	–				

10 Contingent liabilities, contractual commitments and guarantees

	30 Jun 2019 US$000	31 Dec 2018 US$000
Guarantees and other contingent liabilities		
Guarantees	**15,335,825**	14,416,716
Commitments		
Documentary credits and short-term trade-related transactions	**509,589**	509,106
Standby facilities, credit lines and other commitments to lend	**15,051,396**	15,397,314
Total	**15,560,985**	15,906,420

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 2019. 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 December 2012, among other agreements, HSBC Holdings plc ('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 U.S. Department of Justice (the 'US DPA'). HSBC also agreed to retain an independent compliance monitor (who is, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act and, for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme (the 'Skilled Person/Independent Consultant'). HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions. In December 2017, the US DPA expired and the charges deferred by the US DPA were dismissed. The Skilled Person/Independent Consultant will continue conducting reviews for a period of time at the FCA and FRB's discretion.

Through the Skilled Person/Independent Consultant's country-level reviews, as well as internal reviews conducted by HSBC, certain potential AML and sanctions compliance issues have been identified that HSBC is reviewing further with the FRB, FCA and/or OFAC. The Financial Crimes Enforcement Network of the US Treasury Department, 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. HSBC is cooperating with all of these investigations.

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, a number of 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 the Middle East. 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. In July 2018, in a case not involving the group, the New York District Court granted HSBC's motion to dismiss, while in a different case, the magistrate judge issued a recommendation that the New York District Court should deny the defendants' motion to dismiss. The remaining actions are 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.

Tax-related investigations

Various tax administration, regulatory and law enforcement authorities around the world, including in the US, Belgium, Argentina, India and Spain, are conducting investigations and reviews of HSBC Private Bank (Suisse) SA ('HSBC Swiss Private Bank') and other HSBC companies in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation.

In February 2015, the Indian tax authority issued a summons and request for information to an HSBC company in India. In August 2015 and November 2015, HSBC companies received notices issued by two offices of the Indian tax authority, alleging that the Indian tax authority had sufficient evidence to initiate prosecution against HSBC Swiss Private Bank and an HSBC company in Dubai for allegedly abetting tax evasion of four different Indian individuals and/or families and requesting that the HSBC companies show cause as to why such prosecution should not be initiated. HSBC Swiss Private Bank and the HSBC company in Dubai have responded to the show cause notices. HSBC is cooperating with this ongoing investigation.

Foreign exchange rate investigations and litigation

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

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

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC agreed to pay a financial penalty and restitution.

12 Related party transactions

There were no changes in the related party transactions described in the *Annual Report and Accounts 2018* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2019. All related party transactions that took place in the half-year to 30 June 2019 were similar in nature to those disclosed in the *Annual Report and Accounts 2018*.

13 Events after the balance sheet date

These accounts were approved by the Board of Directors on 5 August 2019 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 2019 and the related condensed consolidated income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity 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 IASB and adopted by the European Union.

PricewaterhouseCoopers Limited

Place: Dubai, United Arab Emirates

Date: 5 August 2019

Audit Principal: Tamsin King

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PricewaterhouseCoopers Limited is registered with the Dubai Financial Services Authority.

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