HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report

30 June 2013

Interim Condensed Financial Report - 30 June 2013

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Presentation of Information

This document comprises the Interim Condensed Financial Report – 30 June 2013 for HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.) ('the Bank'). It contains Unaudited Interim Condensed Financial Statements, together with the Board of Directors Report, the Auditor's review report and the Summary of Unaudited Results.

HSBC Bank Oman S.A.O.G. Q2 2013 Board of Directors Report

Dear Shareholders,

A year has passed since HSBC Bank Oman S.A.O.G. ('HBON') was formed as a result of the merger between Oman International Bank S.A.O.G. ('OIB') and HSBC Middle East Ltd.'s ('HSBC Oman') operations in Oman. The 2013 second quarter has been focused on driving business performance, improving our product proposition, introducing new digital banking channels and enhancing the overall banking experience for our customers. In support of this strategy, HBON provided training to employees across the Bank to develop and enhance their skills, with over 2,800 training days delivered on Retail Banking and Wealth Management products, process knowledge and customer experience.

On behalf of the Board of Directors, it gives me great pleasure to present you with your bank's second quarter 2013 financial results.

Performance Summary

As per the International Financial Reporting Standards 3 ('IFRS 3') 'Business Combinations' requirements, the Profit and Loss ('P&L') of HBON for the second quarter of 2013 represents six months of HBON's results against the results of HSBC Oman for 6 months and Oman International Bank for 1 month of the previous year.

Our first half performance shows a 28.1% increase in net profit for Q2 2013 to reach RO9.3m compared to RO7.2m for the same period in 2012. Net interest income ('NII') increased by 72.7% for the period ended 30 June 2013 to reach RO23.1m up from RO13.4m for the same period last year. Net fee and other income increased by 11.3% to RO6.1m compared to RO5.5m in 2012. Net exchange income stood at RO3.9m, representing a 13.2% increase in comparison to RO3.5m for the same period last year.

A net recovery of RO3.1m has been reported within Loan Impairment Charges for the period against a net charge of RO0.9m in the same period last year. This is due to a recovery of RO2.0m from corporate clients and a general provision release of RO1.1m due to a reduction in corporate loans and advances.

As expected, operating expenses increased to RO25.4m reflecting the larger cost base of the merged bank.

Loans and advances net of provisions and reserved interest as at 30 June 2013 decreased by 10.8% to reach RO1,083.9m. Customer deposits increased by 18.9% to RO2,146.9m compared to RO1,806.4m as at 30 June 2012.

HBON's Capital Adequacy ratio stood at 18.6% as at Q2 2013 compared to 15.8% in Q2 2012, representing a strong capital base for future growth.

Introducing new product offerings and improved banking channels

The second quarter saw the re-launch of the popular Mandoos savings scheme, which was first introduced more than 25 years ago and has since been a favourite among Omani customers. The bank also launched a unique personal loans campaign offering complimentary credit life insurance on personal loans.

We upgraded our cash management e-platform to offer market leading solutions and services to corporate banking customers, upgraded our mobile banking application, and introduced the HSBC Secure Key for internet banking users, making us one of the first banks in Oman to offer this service. Digital banking will play an important role in the future and we will continue to invest in our banking channels and face to face branch network to bring the best of HSBC's global capabilities and technical expertise to customers across the Sultanate.

Following the merger, HBON has continued to review its business operations, products and services. As part of this, we announced the exit from our Merchant Acquiring Business (or payment card services) in May 2013.

Reinforcing our Global Standards

HSBC has made a commitment to adopt global compliance standards across the Group. As a result, we are reviewing some relationships where we are unable to obtain sufficiently detailed information and this may lead us to exit some accounts. We recognise that this may cause affected customers some inconvenience and we are committed to minimizing any customer disruption.

Investing in our people

HBON is fully committed to developing leaders, engaging employees, building teams, attracting and developing Omani graduates. An initial plan has been created within HBON to meet the directives on Omanisation and to develop Omani talent outlined by the Central Bank of Oman. These initiatives include:

A 2 year structured graduate programme that seeks Omanis to undertake a focused rotational programme within HBON and HSBC Group internationally.

HBON Business Academy focused on building a cadre of Omanis who will be carefully developed through a programme of up to one year in duration, and groomed to fill planned vacancies.

Increased focus on the ***identification and development of existing Omani talent*** which includes succession planning and on-going career development for individuals within HBON.

The bank also launched a series of employee engagement workshops across the Sultanate aimed at outlining the bank's objective of realising its full potential following the merger. 'Our Journey to Success' workshops focused on brand, strategy and values, and outlined how each and every member of the HBON team can contribute to the bank's continued growth.

Giving back to the community

We completed a series of corporate social responsibility initiatives in the fields of environment, education and philanthropy. We completed the second year of the 'Kids Read' education programme and drove a national Earth Hour campaign in collaboration with the Ministry of Education. In addition, over 60 HBON volunteers got together to pack food hampers, which were distributed to over 1,200 underprivileged families across the Sultanate.

Conclusion

In conclusion, and on behalf of the Board of Directors, I would like to thank all our customers, staff and management for their steadfast commitment and dedication. Special thanks also go to the Central Bank of Oman and the Capital Market Authority for their continued support and guidance.

I wish to express our deepest appreciation to His Majesty Sultan Qaboos Bin Said for the peace, stability and growth that his wise leadership has brought Oman and its people. We offer our full support as he continues to lead the Sultanate to further prosperity and development.

Simon N Cooper
Chairman

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Review Report to the Board of Directors of HSBC Bank Oman SAOG

The Chairman
Board of Directors
HSBC Bank Oman SAOG
PO Box 1727, CPO Seeb 111
Muscat, Sultanate of Oman

Introduction
We have reviewed the unaudited condensed statement of financial position of HSBC Bank Oman SAOG ("the Bank") as at 30 June 2013, and the related unaudited condensed statements of comprehensive income, changes in equity and cash flows for the six months period then ended, and other explanatory notes ("the interim financial information") set out on pages 6 to 30.

Management are responsible for the preparation and fair presentation of the interim financial information in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting' and the minimum disclosure requirements issued by the Capital Market Authority ("CMA"). Our responsibility is to express a conclusion on the interim financial information based on our review.

Scope of review
We conducted our review in accordance with the 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. We have not performed an audit and, 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 interim financial information of the Bank is not:

i) prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'; and

ii) in compliance, in all material respects, with the minimum disclosure requirements issued by the CMA.

29 July 2013

KPMG

Summary of unaudited results for the period ended 30 June 2013

		30 June 2013 RO’000	30 June 2012 RO’000	Change (%)
	Loans and advances net of provisions and reserved interest	**1,083,863**	1,214,579	(11%)
	Customer deposits	**2,146,915**	1,806,352	19%
	Net assets	**303,453**	294,189	3%
*	**Net assets per share**	**0.152**	0.259	(41%)

		Six months period ended 30 June 2013 RO’000	Six months period ended 30 June 2012 RO’000	Change (%)
	Net interest income	**23,127**	13,391	73%
	Net profit for the period	**9,279**	7,243	28%
**	**Earnings per share (annualised)**	**0.009**	0.013	(31%)
***	**Capital adequacy ratio (CAR)**	**18.59%**	15.81%	18%

Comparative information presented is that of six months of HSBC Bank Middle East Limited Oman branches as being the accounting acquirer and one month of Oman International Bank as a result of application of IFRS 3 - Business Combinations as discussed in note 2 (c) and 5.

* *Net assets (book value) per share is calculated by dividing the net assets (book value) at 30 June by the average number of ordinary shares in issue at 30 June.*

** *Earnings per share (annualised) have been calculated by dividing the net profit after tax attributable to ordinary shareholders for the period ended 30 June by the average number of ordinary shares in issue for the period.*

****Capital adequacy ratio has been calculated in accordance with the Basel Capital Adequacy Accord. The ratio represents the ratio of risk weighted assets to capital.*

Unaudited interim condensed statement of comprehensive income for the six months period ended 30 June 2013

	Notes	**Quarter ended 30 June 2013 RO' 000**	Quarter ended 30 June 2012 RO' 000	**Six months ended 30 June 2013 RO' 000**	Six months ended 30 June 2012 RO' 000
Interest income	*6*	**14,092**	9,933	**28,891**	16,246
Interest expense	*7*	**(2,574)**	(1,714)	**(5,764)**	(2,855)
Net interest income		**11,518**	8,219	**23,127**	13,391
Net fee income		**2,924**	2,186	**5,924**	4,098
Net exchange income		**2,095**	2,194	**3,911**	3,454
Dividend income		**87**	3	**164**	3
Other operating income	*8*	**27**	1,396	**51**	1,412
Net operating income before loan impairment charges and other credit risk provisions		**16,651**	13,998	**33,177**	22,358
Loan impairment (charges) and other credit risk provisions - net of recoveries	*9*	**634**	(661)	**3,154**	(882)
Net operating income		**17,285**	13,337	**36,331**	21,476
Operating expenses	*10*	**(12,573)**	(8,307)	**(24,278)**	(12,923)
Amortisation and impairment of intangible assets	*11*	**(572)**	(190)	**(1,143)**	(190)
Total operating expenses		**(13,145)**	(8,497)	**(25,421)**	(13,113)
Profit before tax		**4,140**	4,840	**10,910**	8,363
Tax expense		**(603)**	(597)	**(1,631)**	(1,120)
Profit for the period		**3,537**	4,243	**9,279**	7,243
Other comprehensive income/(expense)					
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
– Fair value gains on available-for-sale investments		**1,456**	316	**2,739**	414
– Income taxes on fair value gain on available-for-sale investments		**(125)**	(38)	**(224)**	(50)
– Effect of currency translation		**(645)**	(27)	**(478)**	(27)
		686	251	**2,037**	337
Total comprehensive income for the period		**4,223**	4,494	**11,316**	7,580
Earnings per share - basic	*12*	**0.007**	0.014	**0.009**	0.013

The accompanying notes on pages 11 to 30 form an integral part of these interim condensed financial statements.

Unaudited interim condensed statement of financial position as at 30 June 2013

	Notes	At 30 June 2013	At 30 June 2012	Audited At 31 December 2012
	Notes	**RO'000**	RO'000	RO'000
Assets				
Cash and balances with central banks		**165,464**	128,516	120,540
Due from banks		**228,307**	178,677	183,858
Loans and advances to customers - net	*13*	**1,083,863**	1,214,579	1,194,443
Financial investments	*14*	**1,025,327**	583,868	680,672
Other assets	*15*	**54,910**	211,415	188,577
Intangible assets	*5&16*	**13,521**	15,807	14,664
Property, plant and equipment	*17*	**31,565**	33,348	30,062
Total assets		**2,602,957**	2,366,210	2,412,816
Liabilities and equity				
Liabilities				
Due to banks		**80,592**	39,747	46,170
Deposits from customers	*18*	**2,146,915**	1,806,352	1,851,567
Other liabilities	*19*	**71,997**	225,922	220,942
Total liabilities		**2,299,504**	2,072,021	2,118,679
Equity				
Share capital	*24*	**200,031**	200,031	200,031
Legal reserve	*25(a)*	**32,673**	32,093	32,673
Statutory reserve	*25(b)*	**1,547**	1,193	1,236
Available-for-sale fair value reserve	*25(d)*	**4,150**	201	1,635
Retained profits		**65,052**	60,671	58,562
Total equity		**303,453**	294,189	294,137
Total equity and liabilities		**2,602,957**	2,366,210	2,412,816
Net assets per share - RO		**0.152**	0.259	0.147
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		**121,688**	231,406	86,782
- Guarantees		**286,076**	356,416	334,677
- Others	*20*	**1,087,890**	1,741,457	1,114,228
		1,495,654	2,329,279	1,535,687

The accompanying notes on pages 11 to 30 form an integral part of these interim condensed financial statements.

The interim condensed financial statements were authorised for issue on 29 July 2013 in accordance with the resolution of the Board of Directors.

Simon N Cooper
Chairman

David Kotheimer
Director

Unaudited interim condensed statement of changes in equity for the six months period ended 30 June 2013

	Share capital	Legal reserve	Statutory reserve	Available-for-sale fair value reserve	Merger reserve	Retained profits	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2012 (refer note 5)	96,805	32,093	973	-	(82,856)	67,119	114,134
Total comprehensive income for the period							-
Profit for the period	-	-	-	-	-	7,243	7,243
Other comprehensive income / (expense) for the period							
Effect of currency translation	-	-	(15)	1	-	(13)	(27)
Net movement in fair value of available-for-sale investments		-	-	200	-	164	364
Total other comprehensive income for the period	-	-	(15)	201	-	151	337
Total comprehensive income for the period	-	-	(15)	201	-	7,394	7,580
Movements as a result of merger	-	-	(50)	-	84,066	(13,557)	70,459
Transfer to statutory reserve	-	-	285	-	-	(285)	-
	-	-	220	201	84,066	(6,448)	78,039
Transaction with shareholders, recorded directly in equity							
Share capital issued	102,016	-	-	-	-	-	102,016
Stock dividend issued for 2011	1,210	-	-	-	(1,210)	-	-
At 30 June 2012	200,031	32,093	1,193	201	-	60,671	294,189
At 1 January 2013	**200,031**	**32,673**	**1,236**	**1,635**	**-**	**58,562**	**294,137**
Total comprehensive income for the period							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**9,279**	**9,279**
Other comprehensive income / (expenses) for the period							
Effect of currency translation	**-**	**-**	**(92)**	**-**	**-**	**(386)**	**(478)**
Net movement in fair value of available-for-sale investments	**-**	**-**	**-**	**2,515**	**-**	**-**	**2,515**
Total other comprehensive income for the period	**-**	**-**	**(92)**	**2,515**	**-**	**(386)**	**2,037**
Total comprehensive income for the period	**-**	**-**	**(92)**	**2,515**	**-**	**8,893**	**11,316**
Transfer to statutory reserve	**-**	**-**	**403**	**-**	**-**	**(403)**	**-**
	-	**-**	**311**	**2,515**	**-**	**8,490**	**11,316**
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2012	**-**	**-**	**-**	**-**	**-**	**(2,000)**	**(2,000)**
At 30 June 2013	**200,031**	**32,673**	**1,547**	**4,150**	**-**	**65,052**	**303,453**

The accompanying notes on pages 11 to 30 form an integral part of these interim condensed financial statements.

Unaudited interim condensed statement of cash flows for the six months period ended 30 June 2013

	Note	Six months ended 30 June 2013 RO' 000	Six months ended 30 June 2012 RO' 000
Cash flows from operating activities			
Profit before tax		**10,910**	8,363
Adjustments for:			
– non-cash items included in profit before tax		**(684)**	160
– change in operating assets		**247,401**	(93,940)
– change in operating liabilities		**144,773**	61,535
– tax paid		**-**	(2,044)
Net cash generated from / (used in) operating activities		**402,400**	(25,926)
Cash flows used in investing activities			
Purchase of financial investments		**(1,167,704)**	(2,349,923)
Proceeds from maturity of financial investments		**825,564**	2,245,000
Purchase of property, plant and equipment		**(3,082)**	(938)
Cash and cash equivalents acquired as a result of merger (net)		**-**	245,782
Effect of currency translation		**(227)**	(60)
Net cash used in investing activities		**(345,449)**	(139,861)
Cash flows from / (used in) financing activities			
Additional capital contribution		**-**	20,551
Dividends paid		**(2,000)**	-
Net cash used in financing activities		**(2,000)**	20,551
Net change in cash and cash equivalents		**54,951**	134,486
Cash and cash equivalents at the beginning of the period		**242,343**	116,582
Cash and cash equivalents at the end of the period	*29*	**297,294**	251,068

The accompanying notes on pages 11 to 30 form an integral part of these interim condensed financial statements

1 Legal status and activities

HSBC Bank Oman S.A.O.G. ('the Bank'), formerly Oman International Bank S.A.O.G. ('OIB'), is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman, India and Pakistan. The registered office of the head office of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, Sultanate of Oman. The Bank has its shares listed on Muscat Securities Market.

As further explained in note 5, on 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. Following the merger, HSBC Bank Middle East Limited ('HBME') holds 51% of the shares in the combined entity. The ultimate parent company of HBME is HSBC Holdings plc.

2 Basis of preparation:

(a) Compliance with International Financial Reporting Standards

The interim condensed financial statements of the Bank have been prepared in accordance with IAS 34 'Interim Financial Reporting' ('IAS 34') as issued by the International Accounting Standards Board ('IASB'), the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority ('CMA'), and the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman ("CBO").

The financial statements of the Bank at 31 December 2012 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, the disclosure requirements of CMA and the applicable regulations of the CBO.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

Standards adopted during the period ended 30 June 2013

On 1 January 2013, the Bank adopted the following significant new standards and revisions to standards for which the financial effect is insignificant to these interim consolidated financial statements:

- IFRS 10 'Consolidated Financial Statements,' IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and amendments to IFRS 10, IFRS 11 and IFRS 12 'Transition Guidance'. IFRS 10 and 11 is required to be applied retrospectively.
- IFRS 13 'Fair Value Measurement' establishes a single framework for measuring fair value and introduces new requirements for disclosure of fair value measurements. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires disclosure of the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments have been applied retrospectively.

2 Basis of preparation (continued) :

(a) Compliance with International Financial Reporting Standards (continued)

- Amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). IAS 19 revised is required to be applied retrospectively. IAS 19 revised replaces the interest cost and expected return on plan assets with a finance cost comprising the net interest on the net defined benefit liability or asset. This finance cost is determined by applying to the net defined benefit liability or asset the same discount rate used to measure the defined benefit obligation. The difference between the actual return on plan assets and the return included in the finance cost component reflected in the income statement is presented in other comprehensive income. The effect of this change is to increase or decrease the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate.
- During the period ended 30 June 2013, the Bank also adopted amendments to standards which had an insignificant effect on these interim condensed financial statements.

  At 30 June 2013, there were no unendorsed standards effective for the period ended 30 June 2013 affecting these interim condensed financial statements.

(b) Presentation of information

The functional currency of the Bank is Rials Omani ("RO"), which is also the presentation currency of the financial statements of the Bank.

(c) Comparative information

These interim condensed financial statements include comparative information as required by IAS 34.

As further explained in note 5, on 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB. Following the merger, HBME holds 51% of the shares in the combined entity. The merger is accounted for as a reverse acquisition under IFRS 3 – 'Business Combinations' due to HBME acquiring a controlling stake in OIB through the issue of new shares by OIB. Accordingly, OIB is treated as the 'accounting acquiree' and HSBC Bank Middle East Limited, Oman branches are treated as the 'accounting acquirer' for accounting purposes.

(d) Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported. Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to the valuation of separately identifiable assets and liabilities acquired during merger, the useful lives of intangible assets, impairment of loans and advances, the valuation of financial instruments and the impairment of available-for-sale financial assets.

(e) Future accounting developments

At 30 June 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these interim condensed financial statements. In addition to the projects to complete financial instrument accounting, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting, which together with the standards described below, could represent significant changes to accounting requirements in the future.

2 Basis of preparation (continued) :

(e) Future accounting developments (continued)

Standards and Interpretations issued by the IASB

Standards applicable in 2014

In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively.

The Bank is currently assessing these clarifications but it is impracticable to quantify their effect as at the date of approval of these financial statements.

In October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities', which introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating all subsidiaries in its consolidated and separate financial statements. The amendments are effective from 1 January 2014 with early adoption permitted. Based on our initial assessment, we do not expect the amendments to have a material impact on these financial statements.

Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2011, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting.

The IASB is in the process of amending the requirements for classification and measurement in IFRS 9 to address practice and other issues.

In December 2012, the IASB added the requirements relating to general hedge accounting to IFRS 9, which align hedge accounting more closely with risk management and established a more principle-based approach to hedge accounting while addressing inconsistencies and weaknesses in the IAS 39 hedge accounting model. The revised hedge accounting requirements are effective for annual periods beginning on or after 1 January 2015 on a prospective basis. The requirements do not address macro hedge accounting, which is still being considered by the IASB. The Bank is currently assessing the impact of the hedge accounting draft standard.

As a result of uncertainties with regard to the final IFRS 9 requirements for classification and measurement and impairment, the Bank remains unable to provide a date by which it will apply IFRS 9 as a whole and it remains impracticable to quantify the effect of IFRS 9 as at the date of the approval of these financial statements.

3 Accounting policies

The accounting policies applied by the Bank in these interim condensed financial statements are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2012 except for the adoption of IFRS 13 Fair Value Measurement.

IFRS 13 has been applied prospectively from 1 January 2013. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurement required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhance disclosures about fair value measurement.

The change had no material impact on the measurement of the Bank's assets and liabilities. However, the Bank has included new disclosures in these interim condensed financial statements which are required under IFRS 13.

4 Products and services

The Bank provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by global business.

- Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking need, consumer finance and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products and financial planning services).
- Commercial Banking ('CMB') product offerings include the provision of receivables financing services, payments and cash management, international trade finance, treasury and capital markets, commercial cards, insurance, cash and derivatives in foreign exchange and rates, and online and direct banking offerings
- Global Banking and Markets ('GB&M') provides tailored financial solutions to government, corporate and institutional clients. The client focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; and principal investment activities.

5 Business combination

On 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. As a result of the merger through the issue of new shares in OIB, HBME acquired 51% of the combined entity for a total consideration of RO 151.92m. As HBME acquired a controlling stake in OIB, the merger is accounted for as a reverse acquisition under IFRS 3. For accounting purposes, OIB is treated as the 'accounting acquiree' and HSBC Bank Middle East Limited, Oman branches are treated as the 'accounting acquirer'.

The fair values of identifiable assets acquired and the liabilities assumed at 3 June 2012 were as follows:

	Fair value recognised on acquisition	Carrying value immediately prior to acquisition
	RO'000	RO'000
Cash and balances with central banks	**108,344**	108,344
Derivatives	**1,948**	1,948
Due from banks	**174,190**	174,190
Loans and advances to customers – net*	**685,370**	702,940
Financial investments	**173,977**	173,977
Other assets *	**120,609**	120,723
Prepayment and accrued income	**1,120**	1,120
Property, plant and equipment	**31,405**	37,038
Intangible assets – core deposit	**12,306**	-
Intangible assets – customer relationships	**3,691**	-
Deferred tax assets	**3,868**	950
Due to banks	**(21,281)**	(21,281)
Deposits from customers	**(1,014,455)**	(1,015,555)
Items in the course of transmission to other banks	**(4,519)**	(4,519)
Derivatives	**(2,342)**	(242)
Other liabilities	**(116,079)**	(116,079)
Current tax liabilities	**(563)**	(563)
Accruals and deferred income	**(4,428)**	(4,428)
Total identifiable net assets	**153,161**	
Total consideration transferred	**151,923**	
Negative goodwill arising on acquisition	**(1,238)**	

***** For acquired receivables, the best estimate at the acquisition date of the contractual cash flows not expected to be collected are as follows:

	Gross contractual cash flow	**Cash flow not expected to be collected**
	RO'000	**RO'000**
Loans and advances	**746,335**	**60,965**
Other assets	**120,723**	**114**

6 Interest income

Interest bearing assets earned interest at an overall annualised rate of **2.64%** for the six months period ended 30 June 2013 (30 June 2012 – 2.29 %).

7 Interest expense

For the six months period ended 30 June 2013, the average overall annualised cost of funds was **0.56%** (30 June 2012 – 0.44%).

8 Other operating income

	Six months period ended 30 June 2013 RO'000	Six months period ended 30 June 2012 RO'000
Gain on sale of syndicated loans	**30**	-
Negative goodwill (note 5)	**-**	1,238
Other income	**21**	174
	51	1,412

9 Loan impairment charges and other credit risk provisions - net of recoveries

	Six months period ended 30 June 2013 RO'000	Six months period ended 30 June 2012 RO'000
Provided during the period – general (note 13)	**-**	(872)
Provided during the period – specific (note 13)	**(2,668)**	(2,580)
Provisions released / written back (note 13)	**4,258**	422
Adjustments as a result of fair value unwind	**115**	1,661
Reserved interest released (note 13)	**416**	132
Written-off loans recovered	**1,080**	355
Bad debts directly written off to statement of income	**(47)**	-
	3,154	(882)

10 Other operating expenses

	Six months period ended 30 June 2013 RO'000	Six months period ended 30 June 2012 RO'000
Employee compensation and benefits	**(9,761)**	(6,297)
General and administrative expenses*	**(13,190)**	(6,298)
Depreciation of property, plant and equipment	**(1,327)**	(328)
	(24,278)	(12,923)

***General and administrative expenses include the RO 0.5m of "Mandoos Prize" draw expenses which was previously reported as interest expense up until March 2013 of RO 0.6m.

11 Amortisation and impairment of intangible assets

	Six months period ended 30 June 2013 RO'000	Six months period ended 30 June 2012 RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposits	**(880)**	(146)
Customer relationships	**(263)**	(44)
	(1,143)	(190)

12 Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the shareholders, being profit for the weighted average number of shares in issue, as follows:

	Six months period ended 30 June 2013	Six months period ended 30 June 2012	For the year ended 31 December 2012
Weighted average number of shares in issue ('000)	**2,000,313**	1,137,101	1,571,065
Net profit for the period (RO'000)	**9,279**	7,243	5,796
Basic earnings per share – annualised (RO)	**0.009**	0.013	0.004

13 Loans and advances to customers

Under IFRS 3 – Business Combinations, the acquirer does not recognise a provision for loan impairments on initial recognition of loans acquired in a business combination. The table below provides an analysis of loans and advances to customers as per the IFRS requirements.

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Overdrafts	**89,564**	97,035	90,702
Loans	**987,085**	1,102,175	1,101,998
Bills discounted / purchased	**33,315**	29,263	30,063
Gross loans and advances	**1,109,964**	1,228,473	1,222,763
Provision for loan impairment - specific	**(12,534)**	(4,869)	(14,625)
Provision for loan impairment - general	**(5,165)**	(6,509)	(6,289)
Reserved interest	**(8,402)**	(2,516)	(7,406)
Net loans and advances	**1,083,863**	1,214,579	1,194,443

To comply with the CBO regulations, the table below includes the provision for loan impairment on loans acquired in the business combination.

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Overdrafts	**89,564**	97,035	90,702
Loans	**1,057,732**	1,192,673	1,172,645
Bills discounted / purchased	**33,315**	29,263	30,063
Gross loans and advances	**1,180,611**	1,318,971	1,293,410
Provision for loan impairment - specific	**(35,511)**	(38,271)	(37,602)
Provision for loan impairment - general	**(15,156)**	(16,503)	(16,280)
Reserved interest	**(46,081)**	(49,618)	(45,085)
Net loans and advances	**1,083,863**	1,214,579	1,194,443

The interest rate bands of gross loans and advances to customers are as follows:

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
0-5%	**570,568**	675,645	669,783
5-7%	**265,394**	220,309	233,229
7-10%	**280,410**	355,003	318,937
10-13%	**47,152**	52,869	54,844
more than 13%	**17,087**	15,145	16,617
	1,180,611	1,318,971	1,293,410

13 Loans and advances to customers (continued)

Maturity analysis of net loans and advances to customers as per CBO circular BM 955 is as follows:

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
0-6 months	**263,819**	400,347	342,119
6-12 months	**79,641**	85,654	27,472
1-3 years	**87,892**	110,742	170,880
3-5 years	**222,170**	134,733	200,316
More than 5 years	**430,341**	483,103	453,656
	1,083,863	1,214,579	1,194,443

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Personal and consumer loans	**420,570**	435,849	421,211
Corporate and commercial			
Import trade	**142,765**	129,974	178,312
Construction	**62,542**	42,750	69,317
Manufacturing	**232,791**	160,008	187,219
Wholesale and retail trade	**22,236**	31,205	35,060
Export trade	**6,172**	9,868	7,737
Electricity, gas, water, transportation and communication	**85,234**	133,778	132,384
Services	**128,281**	136,401	161,293
Mining and quarrying	**31,124**	131,221	54,065
Others	**42,696**	60,074	40,422
	753,841	835,279	865,809
Financial institutions	**6,200**	47,843	6,390
Total gross loans and advances	**1,180,611**	1,318,971	1,293,410
Provision for loan impairment - specific	**(35,511)**	(38,271)	(37,602)
Provision for loan impairment - general	**(15,156)**	(16,503)	(16,280)
Reserved interest	**(46,081)**	(49,618)	(45,085)
Net loans and advances	**1,083,863**	1,214,579	1,194,443
Non performing loans	**90,245**	101,789	92,445

Specific provision for loan impairment and reserved interest represents **90.4%** (30 June 2012 – 86.3 %) of gross non-performing loans and advances.

13 Loans and advances to customers (continued)

Provision for loan impairment and reserved interest:

The movement on provision for loan impairment for the six months period ended 30 June 2013 is analysed in the table below:

	Specific provision RO'000	**General provision RO'000**	**Total provision RO'000**
Balance at 1 January 2013	**37,602**	**16,280**	**53,882**
Currency translation effect on opening balance	**(23)**	**-**	**(23)**
Provided during the period (note 9)	**2,668**	**-**	**2,668**
Released during the period:			
-Due to recoveries/write back (note 9)	**(3,134)**	**(1,124)**	**(4,258)**
Written off during the period	**(1,602)**	**-**	**(1,602)**
Balance at 30 June 2013	**35,511**	**15,156**	**50,667**

The movement on provision for loan impairment for the six months period ended 30 June 2012 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2012	3,445	5,644	9,089
Transfer as result of business combination	33,402	9,995	43,397
Currency translation effect on opening balance	(2)	-	(2)
Provided during the period (note 9)	2,580	872	3,452
Released during the period:			
-Due to recoveries / write back (note 9)	(414)	(8)	(422)
Written off during the period	(740)	-	(740)
Balance at 30 June 2012	38,271	16,503	54,774

The movement on reserved interest for the period is analysed as below:

	30 June 2013 RO'000	30 June 2012 RO'000
Balance at the beginning of the period	**45,085**	1,586
Transfers as result of business combination	**-**	47,102
Currency translation effect on opening balance	**(2)**	-
Reserved during the period	**5,443**	2,239
Released to the statement of comprehensive income in loan impairments - credit (note 9)	**(416)**	(132)
Written off during the period	**(4,029)**	(1,177)
Balance at end of the period	**46,081**	49,618

The estimated fair value of loans and advances is not materially different from the carrying value of loans and advances, other than as disclosed in note 5.

14 Financial investments

Financial investments details are provided as follows:

	Fair value	Fair value	Fair value	**Carrying value**	Carrying value	Carrying value	**Cost**	Cost	Cost
	30 June 2013	30 June 2012	31 December 2012	**30 June 2013**	30 June 2012	31 December 2012	**30 June 2013**	30 June 2012	31 December 2012
	RO'000	RO'000	RO'000	**RO'000**	RO'000	RO'000	**RO'000**	RO'000	RO'000
Marketable securities – MSM									
Finance	**2,319**	1,934	2,092	**2,319**	1,934	2,092	**1,911**	1,911	1,911
Insurance	**377**	378	377	**377**	378	377	**340**	340	340
Services	**389**	381	405	**389**	381	405	**361**	361	361
Industrial	**42**	54	44	**42**	54	44	**54**	54	54
Government bonds	**51,440**	41,747	47,998	**51,440**	41,747	47,998	**50,190**	41,073	47,670
Other bonds	**-**	220	220	**-**	220	220	**-**	220	220
	54,567	44,714	51,136	**54,567**	44,714	51,136	**52,856**	43,959	50,556
Marketable securities – Foreign by Sector									
Government securities	**2,610**	3,909	3,675	**2,610**	3,909	3,675	**2,610**	3,843	3,675
Foreign shares	**3,772**	2,583	3,111	**3,772**	2,583	3,111	**2,407**	2,417	2,417
	6,382	6,492	6,786	**6,382**	6,492	6,786	**5,017**	6,260	6,092
Unquoted and other investments									
Certificates of Deposits				**950,002**	519,990	610,000	**950,000**	519,990	610,000
Unquoted Omani shares				**1,010**	1,010	1,010	**1,010**	1,010	1,010
Investment fund units				**13,366**	11,662	11,740	**11,717**	11,681	11,696
				964,378	532,662	622,750	**962,727**	532,681	622,706
Total				**1,025,327**	583,868	680,672	**1,020,600**	582,900	679,354

14 Financial investments (continued)

Details of classification of investments are given below:

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Available-for-sale (AFS)	**1,025,327**	583,868	680,672
	1,025,327	583,868	680,672

Details of AFS investments are as follows:

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Cost of:			
Quoted - Foreign Government securities	**2,610**	3,843	3,675
Quoted - Equity and other securities	**55,263**	46,376	52,973
Unquoted investments	**962,727**	532,681	622,706
	1,020,600	582,900	679,354
Revaluation gain of:			
Quoted - Equity and other securities	**4,727**	968	1,318
	1,025,327	583,868	680,672

15 Other assets

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Derivatives - positive mark to market	**970**	3,143	2,108
Prepayments and accrued income	**1,510**	1,634	960
Deferred tax asset	**4,016**	5,204	4,515
Acceptances	**42,076**	196,863	136,646
Others	**6,338**	4,571	44,348
	54,910	211,415	188,577

16 Intangible assets

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Customer relationships	**3,691**	3,691	3,691
Core deposits	**12,306**	12,306	12,306
	15,997	15,997	15,997
Less: amortised	**(2,476)**	(190)	(1,333)
	13,521	15,807	14,664

17 Property plant and equipment

RO 3.1m of property plant and equipment were added during the period (June 2012: RO 31.4m) of which RO 1.4m relates to assets purchased under finance lease.

18 Deposits

	30 June 2013	30 June 2012	31 December 2012
	RO'000	RO'000	RO'000
Deposits details are as follows:			
Current and call	**1,364,948**	933,027	1,052,671
Savings	**427,463**	444,338	428,009
Time deposits	**348,195**	419,568	363,667
Others	**6,309**	9,419	7,220
	2,146,915	1,806,352	1,851,567

Maturity analysis of customer deposits as per CBO circular BM 955 is as follows:

	30 June 2013	30 June 2012	31 December 2012
	RO'000	RO'000	RO'000
0-6 months	**1,019,464**	774,831	772,878
6-12 months	**360,191**	251,214	308,296
1-3 years	**136,618**	244,639	165,183
3-5 years	**132,570**	135,746	156,994
Over 5 years	**498,072**	399,922	448,216
	2,146,915	1,806,352	1,851,567

The interest rate bands of deposits are as follows:

	30 June 2013	30 June 2012	31 December 2012
	RO'000	RO'000	RO'000
0-2%	**2,035,234**	1,683,614	1,729,891
2-4%	**107,304**	117,898	116,948
4-6%	**566**	1,139	694
6-8%	**349**	92	133
8-10 %	**3,433**	2,457	3,353
more than 10%	**29**	1,152	548
	2,146,915	1,806,352	1,851,567

19 Other liabilities

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Derivatives - negative mark to market	**2,098**	3,779	3,221
Deferred tax liability	**948**	555	721
Retirement benefit liability	**764**	1,523	1,078
Acceptances	**42,076**	196,863	136,646
Tax liability	**3,556**	3,774	2,414
Accruals and deferred income	**1,869**	12,912	2,920
Obligation under finance lease	**1,202**	-	-
Others	**19,484**	6,516	73,942
	71,997	225,922	220,942

20 Contingent liabilities, commitments and derivatives

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Forward forex contracts – sales	**108,422**	483,226	131,533
Forward forex contracts – purchases	**110,150**	489,515	133,100
Currency swaps	**116,816**	134,750	136,479
Options	**-**	2,500	3,594
Interest rate swaps	**20,261**	27,821	21,965
Undrawn unconditionally cancellable commitments	**703,832**	535,661	667,840
Undrawn unconditionally non-cancellable commitments	**28,409**	67,984	19,717
	1,087,890	1,741,457	1,114,228

As at 30 June 2013, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and it therefore does not consider it necessary to make any additional provisions in this regard.

21 Basis of valuation for financial assets and liabilities measured at fair value

		Valuation techniques		
	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	RO'000	RO'000	RO'000	RO'000
At 30 June 2013				
Recurring fair value measurements				
Assets				
Derivatives	**-**	**970**	**-**	**970**
Financial investments: available-for-sale	**9,442**	**1,014,875**	**1,010**	**1,025,327**
Liabilities				
Derivatives	**-**	**2,098**	**-**	**2,098**
At 30 June 2012				
Assets				
Derivatives	-	3,143	-	3,143
Financial investments: available-for-sale	5,330	577,528	1,010	583,868
Liabilities				
Derivatives	-	3,779	-	3,779

The carrying value of assets measured in level 3 of the fair value hierarchy approximates to fair value. There is no change in the fair value of these assets during the period (IFRS 13).

There has been no change to the basis of valuation of level 2 and level 3 financial assets and liabilities disclosed in the latest audited financial statements of the Bank.

22 Asset liability mismatch

The asset liability mismatch is based on CBO circular BM 955 and given as follows:

	30 June 2013			30 June 2012			31 December 2012		
Maturities	**Assets**	**Liabilities and equity**	**Mismatch**	Assets	Liabilities and equity	Mismatch	Assets	Liabilities and equity	Mismatch
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
0-6 months	**1,621,454**	**1,172,190**	**449,264**	1,406,404	1,039,249	367,155	1,415,849	1,046,295	369,554
6-12 months	**100,448**	**370,003**	**(269,555)**	92,660	251,214	(158,554)	46,012	308,287	(262,275)
1-3 years	**124,000**	**136,619**	**(12,619)**	132,390	244,640	(112,250)	217,297	165,177	52,120
3-5 years	**256,162**	**132,570**	**123,592**	178,076	135,767	42,309	214,111	156,994	57,117
more than 5 years	**500,893**	**791,575**	**(290,682)**	556,680	695,340	(138,660)	519,547	736,063	(216,516)
	2,602,957	**2,602,957**	**-**	2,366,210	2,366,210	-	2,412,816	2,412,816	-

23 Exposure to credit risk

	Loans and advances (As per CBO)			**Due from banks**			**Financial investments**		
	30 June 2013	30 June 2012	31 December 2012	**30 June 2013**	30 June 2012	31 December 2012	**30 June 2013**	30 June 2012	31 December 2012
	RO'000	RO'000	RO'000	**RO'000**	RO'000	RO'000	**RO'000**	RO'000	RO'000
Individually impaired - non performing	**90,245**	101,789	92,445		-	-		-	-
Provision for loan impairment specific and reserved interest	**(81,592)**	(87,889)	(82,687)		-	-		-	-
Carrying amount of non-performing	**8,653**	13,900	9,758		-	-		**-**	**-**
Past due and not impaired	**23,481**	40,092	21,471		-	-		-	-
Neither past due nor impaired	**1,066,885**	1,177,090	1,179,494	**228,307**	178,677	183,858	**1,025,327**	583,868	680,672
Allowance for collective impairment	**(15,156)**	(16,503)	(16,280)	**-**	-	-	**-**	-	-
Total carrying amount	**1,083,863**	1,214,579	1,194,443	**228,307**	178,677	183,858	**1,025,327**	583,868	680,672

24 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (30 June 2012 – 2,000,312,790 shares of RO 0.100 each) against the authorised share capital of 7,500 million shares of RO 0.100 each (30 June 2012 – 7,500 million of shares of RO 0.100 each)

Of the above share capital of the Bank ordinary shares of 1,020,159,523 were issued on 3 June 2012 to HBME as part of the merger with OIB (refer note 5).

Major Shareholder

All those shareholders of the Bank who own 10% or more of the Bank's shares in their name, and the number of shares they hold are as follows:

	30 June 2013 Number of shares	30 June 2012 Number of shares	31 December 2012 Number of shares
HSBC Bank Middle East Limited	**1,020,159,523**	1,020,159,523	1,020,159,523

25 Reserves

(a) Legal reserve

In accordance with the Commercial Companies Law of Oman 1974 as amended, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the value of the Bank's paid-up share capital. This reserve is not available for distribution.

(b) Statutory reserve

Regulations issued on 30 September 2000 by the authority regulating the banking activities in India, in which certain branches operate, require the branches to appropriate 25% of their profits for the year to a statutory reserve, which is not distributable without the prior permission of the regulatory authority. An earlier regulation issued on 27 March 1989, required the branches in India to appropriate 20% of their profits to a statutory reserve until the year 2000. In respect of this an amount of RO 403,000 has been transferred to statutory reserve during the period ended 30 June 2013 (30 June 2012: RO 285,000).

(c) Merger reserve

The merger reserve arises from the application of the principles of reverse acquisition accounting for the business combination of HSBC Bank Middle East Limited Oman branches and OIB in June 2012. In accordance with IFRSs the acquisition has been accounted for as a reverse acquisition as explained in note 5.

(d) Available-for-sale fair value reserve

Available-for-sale fair value reserve represents fair value changes in available-for-sale financial assets.

26 Related parties and holders of 10% of the Bank's shares

Holders of 10% or more of the Bank's shares may include companies, individuals, or families. Families are included if the shares of the family members total 10% or more of the Bank's shares. Members of the family of an individual are those that may be expected to influence, or be influenced by, that person in their dealings with the Bank.

Related parties also include key management personnel and HSBC Group and related entities. Details are provided separately where amounts relating to an individual director and/or significant shareholder and his/her related parties are greater than 5% of the total of related party loans and advances. Others represent transactions with parties related to more than one director.

26 Related parties and holders of 10% of the Bank's shares (continued)

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ('significant shareholders') or their family members during the period is as follows:

	Significant shareholder - HSBC and related group entities	**Directors**	**Key management personnel**	**Others**	**Total**
30 June 2013	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Loans and advances	**-**	**7**	**330**	**18,878**	**19,215**
Current, deposit and other accounts	**-**	**83**	**-**	**34,111**	**34,194**
Letters of credit and guarantees	**-**	**-**	**-**	**7,988**	**7,988**
Due from banks	**46,688**	-	-	-	**46,688**
Due to banks	**35,704**	-	-	-	**35,704**
For the period ended 30 June 2013					
Net fee income	**157**	-	-	-	**157**
Other operating expenses:	**(5,657)**	**(3)**	**(923)**	**(122)**	**(6,705)**
Purchase of property and equipment	**-**	**-**	**-**	**80**	**80**

	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
30 June 2012	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	34	145	29,732	29,911
Current, deposit and other accounts	41	103	-	52,384	52,528
Letters of credit and guarantees	18	-	-	4,947	4,965
Provision for loans and advances	-	-	-	730	730
Due from banks	9,341	-	-	-	9,341
Due to banks	13,250	-	-	-	13,250
For the period ended 30 June 2012					
Net fee income	35	-	-	28	63
Other operating expenses	(3,036)	-	(707)	(66)	(3,809)

Related party loans and advances bear interest at rates between 3% p.a. and 8% p.a. Related party deposits bear interest at rates between 0.25% p.a. and 1.25% p.a.

27 Operating segments

The factors used to identify the Bank's reporting segment are discussed in the financial statements for the year ended 31 December 2012.

Geographical areas

A geographical analysis of key financial data by location of primary assets as at 30 June 2013 is set out below:

30 June 2013	**Oman RO'000**	**Others RO'000**	**Adjustments RO'000**	**Total RO'000**
Net operating income before loan impairment charges and other credit risk provisions	**33,120**	**57**	**-**	**33,177**
Loan impairment charges and other credit risk provisions – net of recoveries	**3,113**	**41**	**-**	**3,154**
Net operating income	**36,233**	**98**	**-**	**36,331**
Total operating expenses	**(24,793)**	**(628)**	**-**	**(25,421)**
Profit before tax	**11,440**	**(530)**	**-**	**10,910**
Tax expense	**(1,641)**	**10**	**-**	**(1,631)**
Profit for the period	**9,799**	**(520)**	**-**	**9,279**
Loans and advances to customers (net)	**1,083,631**	**232**	**-**	**1,083,863**
Total assets	**2,595,558**	**32,922**	**(25,523)**	**2,602,957**
Deposits from customers	**2,135,823**	**11,092**	**-**	**2,146,915**
Total liabilities	**2,295,041**	**13,737**	**(9,274)**	**2,299,504**

A geographical analysis of key financial data by location of primary assets as at 30 June 2012 is set out below:

30 June 2012	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
Net operating income before loan impairment charges and other credit risk provisions	22,277	81	-	22,358
Loan impairment charges and other credit risk provisions	(890)	8	-	(882)
Net operating income	21,387	89	-	21,476
Total Operating Expenses	(13,006)	(107)	-	(13,113)
Profit before tax	8,381	(18)	-	8,363
Tax expense	(488)	(632)	-	(1,120)
Profit for the period	7,893	(650)	-	7,243
Loans and advances to customers (net)	1,212,733	1,846	-	1,214,579
Total assets	2,354,562	39,326	(27,678)	2,366,210
Deposits from customers	1,793,110	13,242	-	1,806,352
Total liabilities	2,063,073	19,747	(10,799)	2,072,021

Business Line segment

Information regarding products and services are discussed in note 4 to these unaudited condensed financial statements. The results of each reportable segment have been presented in the financial statements as of 31 December 2012.

28 Capital adequacy ratio

Details of capital adequacy, calculated in accordance with the norms prescribed by the Bank for International Settlements (BIS), are given below:

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Tier I and tier II capital	**288,020**	278,616	288,020
Risk-weighted assets	**1,549,395**	1,762,530	1,796,589
Capital adequacy ratio %	**18.59%**	15.81%	16.03%

29 Cash and cash equivalents

	30 June 2013 RO'000	30 June 2012 RO'000	31 December 2012 RO'000
Unaudited interim condensed statement of financial position comprises:			
Cash and balances with central banks	**165,464**	128,516	120,540
Due from Banks	**228,307**	178,677	183,858
Due to Banks	**(80,592)**	(39,747)	(46,170)
	313,179	267,446	258,228
Adjustment for items maturing after three months from date of acquisition and restricted balances	**(15,885)**	(16,378)	(15,885)
	297,294	251,068	242,343
Cash and cash equivalent comprise:			
Cash and balances with central banks	**149,579**	112,138	104,655
Due from Banks	**228,307**	178,677	183,858
Due to Banks	**(80,592)**	(39,747)	(46,170)
Total	**297,294**	251,068	242,343