



HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report
30 June 2015

HSBC 

Interim Condensed Financial Report – 30 June 2015

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Presentation of information

This document comprises the Interim Condensed Financial Report – 30 June 2015 for HSBC Bank Oman S.A.O.G. ('HBON') ('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.

Board of Directors' Report for the six months ended 30 June 2015

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's second quarter financial results for 2015.

We remained focused on our strategic objectives of growing revenues, streamlining processes and procedures and implementing the highest global standards to protect the Bank, our shareholders and our customers from the risks of financial crime, within a framework of delivering excellence in customer service at all times. We continued to experience strong competition in the market, facing margin compression and retail asset attrition resulting in new assets being written at significantly lower margins than have been available in recent years. Despite this, a strong performance in corporate banking enabled the Bank to deliver a small positive uplift in operating income at the half year.

Performance Summary

Our first half performance shows a 8.8% decrease in net profit of RO5.2m compared to RO5.7m for the same period in 2014, mainly due to an increase in loan impairment charges and operating expenses.

Net operating income before loan impairment charges increased by 5.9% to RO36.1m compared to RO34.1m for the same period last year due to higher net interest income, net fee income and other operating income.

Net interest income increased by 4.3% to RO24.1m for the period ended 30 June 2015, up from RO23.1m for the same period in 2014, due to an increase in corporate loans and advances. Net fee income increased by 9.7% to RO6.8m in comparison to RO6.2m for the period ended 30 June 2014 due to higher fees from the trade finance business. Other operating income of RO1.6m for the period ended 30 June 2015 compared to RO0.5m for the same period in 2014 due to a gain on sale of HBON's India operations of RO0.8m (net of tax) and a gain on sale of investments of RO0.7m.

Loan impairment charges of RO2.2m were mainly from retail specific provision charge of RO1.4m and a corporate general provision charge of RO1.5m from an increase in corporate loans and advances, partly offset by a recovery of RO1m from corporate customers, compared to a net charge of RO1.2m for the same period in 2014.

Operating expenses increased by 4.5% to RO 27.7m compared to RO26.5m for the same period in 2014 due to the combined effect of one-off expense reversals in the prior year and a current year increase in operating expenses.

Loans and advances net of provisions and reserved interest as at 30 June 2015 increased by 15.7% to RO1,314.7m compared to RO1,136.6m as at 30 June 2014 due to an increase in corporate loans and advances.

Customer deposits marginally decreased by 0.8% to RO1,945.2m compared to RO1,960.1m as at 30 June 2014, but the bank remains one of the most liquid in the market with a loan: deposit ratio of 67.6 %

HBON's Capital Adequacy ratio stood at 17.5% as at 30 June 2015 compared to 18.4% as at 30 June 2014, representing a continuing strong capital base for future growth.

Delivering the best customer experience

In Retail Banking & Wealth Management, the second quarter witnessed significant process improvements that have enabled the Bank to enhance its levels of customer service. For example, we reduced the turn-around time to process a home loan by around 65% compared to 2014. We also enhanced the security on our ATMs to help prevent fraud and the use of duplicate cards.

We broadened our comprehensive digital banking proposition even further with the launch of the HSBC Entertainer App, which offers attractive shopping discounts and deals to customers through their Smartphone.

In Commercial Banking, asset growth has remained robust with strong trends seen in lending and payments services as we have continued to exploit our local capabilities by leveraging our regional and global connectivity. Reflecting our ongoing commitment to SMEs (Small and Medium-sized Enterprises) in Oman we continued to support international and internationally aspirant SMEs through the International Growth Fund which we launched last year and we are hopeful of increasing the size of the Fund in the coming months.

We have continued to see good interest and take-up by corporate clients and government bodies in our online and mobile banking platform 'HSBCnet', which allows clients to securely manage payments, receivables and cash flow using real-time transaction information. HSBCnet remains a core component of what has been voted by Euro money as the best global cash management proposition for the 3rd year in a row.

Our operations in Pakistan

Prior to the 2012 merger of HSBC Bank Middle East's Oman operations with Oman International Bank (OIB), a decision was taken by the former OIB Board of Directors and unanimously approved by the OIB shareholders at an Extraordinary General Meeting in May 2012, to dispose of the Bank's operations in Pakistan, subject to regulatory approvals. In June 2015, we confirmed that HSBC Bank Oman had entered into an agreement to sell its banking business in Pakistan to Meezan Bank Limited. The transaction, which is subject to Meezan Bank's shareholders' and relevant regulatory approvals, is expected to complete during the second half of 2015. The sale will be at a small discount to the Net Asset Value of the business.

Investing in our people and the community

Reinforcing our commitment to identifying and developing local talent, HSBC Bank Oman is pleased to have achieved an Omanisation rate of over 93% at the half-year, noticeably ahead of the 90% target set by the Central Bank of Oman.

Supporting the Bank's staff to achieve their career aspirations, a number of workshops were run during the quarter. In May, the first phase of a new 'Branch Manager Certification Programme' was launched for 20 branch managers, in association with the College of Banking and Financial Studies. HSBC Bank Oman was one of the first banks in Oman to offer this programme. In addition, high potential talent at middle and senior manager levels attended a programme titled 'Maximising your Potential'. The Bank also conducted a two-day event – the 'Al Roya Career Development Programme' - which was designed to fast-track the career progression of high potential Omanis.

The Bank's 2015 Graduate Management Trainee programme welcomed 12 new university graduates, with a further 15 graduates from the pool of applicants appointed as direct hires into the Bank.

Demonstrating our continuing commitment to support Oman's youth, the Bank sponsored the country's first Inter Collegiate Career Fair, showcasing employment and development opportunities to eight participating colleges.

Under the Bank's Corporate Sustainability agenda, HSBC Bank Oman staff volunteered over 800 hours in the first half of the year, representing a significant increase over 2014. Building on its partnership with the British Council, the Bank conducted the final event in the 2015 schedule of the Kids Read Programme. In May, HSBC Bank Oman and the British Council recognised the talent of three young Omani short story writers at the closing ceremony of the 'HSBC Young Omani Author Awards'. This collaborative programme helped tap into the creativity and talent of young national writers across the country.

Conclusion

On behalf of the Board of Directors, I would like to thank all of 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 continues to bring to Oman and its people. We offer our full support as he continues to lead the Sultanate to further prosperity and development.

David Eldon
Chairman



Report on review of interim financial information to the directors of HSBC Bank Oman SAOG

Introduction

We have reviewed the accompanying condensed interim statement of financial position of HSBC Bank Oman SAOG as of 30 June 2015, and the related condensed statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed 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 this condensed 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. 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 interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’ and the minimum disclosure requirements issued by the Capital Market Authority (“CMA”).

PricewaterhouseCoopers LLP

Date

Muscat, Sultanate of Oman

Summary of unaudited results for the six months period ended 30 June 2015

	30 June 2015	30 June 2014	
	RO'000	RO'000	Change %
Loans and advances net of provisions and reserved interest	1,314,666	1,136,614	15.7
Customer deposits	1,945,163	1,960,111	(0.8)
Net assets	303,904	303,931	-
* Net assets per share	0.152	0.152	-
	Six months period ended 30 June 2015	Six months period ended 30 June 2014	
	RO'000	RO'000	Change %
Net interest income	24,099	23,148	4.1
Net profit for the period	5,169	5,668	(8.8)
** Earnings per share (annualised)	0.005	0.006	(16.7)
*** Capital adequacy ratio (CAR)	17.47%	18.43%	(0.96)

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

** *Earnings per share (annualised) has 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 profit or loss and other comprehensive income for the six months period ended 30 June 2015

		Quarter ended 30 June 2015 RO' 000	Quarter ended 30 June 2014 RO' 000	Six months period ended 30 June 2015 RO' 000	Six months period ended 30 June 2014 RO' 000
Interest income	5	13,753	13,555	27,770	26,664
Interest expense	6	(1,735)	(1,907)	(3,671)	(3,516)
Net interest income		12,018	11,648	24,099	23,148
Net fee income		3,494	3,736	6,794	6,162
Net exchange income		1,787	1,791	3,361	3,433
Dividend income		137	291	293	828
Other operating income	7	45	533	1,575	548
Net operating income before loan impairment charges and other credit risk provisions		17,481	17,999	36,122	34,119
Loan impairment (charges) and other credit risk provisions - net of recoveries	8	(1,437)	(1,004)	(2,246)	(1,235)
Net operating income		16,044	16,995	33,876	32,884
Operating expenses	9	(13,790)	(13,639)	(26,529)	(25,330)
Amortisation of intangible assets	10	(572)	(572)	(1,143)	(1,143)
Total operating expenses		(14,362)	(14,211)	(27,672)	(26,473)
Profit before tax		1,682	2,784	6,204	6,411
Tax expense		(293)	(203)	(1,035)	(743)
Profit for the period		1,389	2,581	5,169	5,668
Other comprehensive income / (expense)					
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Available-for-sale investment					
- Fair value gain / (loss)		161	(279)	197	(3)
- Fair value gain reclassified to profit or loss		-	-	(646)	-
- amount reclassified to profit or loss in respect of impairment		22	-	22	-
- Income tax		(13)	10	36	6
		170	(269)	(391)	3
Exchange differences					
- Foreign exchange loss reclassified to profit or loss on disposal of India operations		-	-	216	-
- Effect of currency translation		(7)	(15)	57	17
		(7)	(15)	273	17
Other comprehensive income / (expense) for the period net of tax		163	(284)	(118)	20
Total comprehensive income for the period		1,552	2,297	5,051	5,688
Earnings per share - basic (RO)	11	0.003	0.005	0.005	0.006

The accompanying notes on pages 11 to 28 form an integral part of these interim condensed financial statements.

Unaudited interim condensed statement of financial position as at 30 June 2015

		At 30 June 2015	At 30 June 2014	Audited At 31 December 2014
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		336,588	179,695	180,007
Due from banks		152,972	266,842	155,902
Loans and advances to customers - net	12	1,314,666	1,136,614	1,161,313
Financial investments	13	469,032	700,687	666,151
Other assets	14	41,032	53,987	39,433
Intangible assets	15	8,951	11,236	10,094
Property and equipment	16	27,597	30,915	30,012
Total assets		2,350,838	2,379,976	2,242,912
Liabilities and equity				
Liabilities				
Due to banks		49,717	51,172	29,966
Deposits from customers	17	1,945,163	1,960,111	1,852,339
Other liabilities	18	52,054	64,762	50,730
Total liabilities		2,046,934	2,076,045	1,933,035
Equity				
Share capital	23	200,031	200,031	200,031
Legal reserve	24(a)	34,984	33,759	34,984
Statutory reserve	24(b)	-	1,528	1,446
Available-for-sale fair value reserve	24(c)	4,206	5,069	4,597
Foreign exchange reserve	24(d)	(247)	(254)	(497)
Retained earnings		64,930	63,798	69,316
Net equity		303,904	303,931	309,877
Total equity and liabilities		2,350,838	2,379,976	2,242,912
Net assets per share - RO		0.152	0.152	0.155
<i>Off-balance sheet items:</i>				
Contingent liabilities and commitments				
- Documentary credits		70,916	83,332	112,283
- Guarantees		377,114	324,603	325,329
- Others	19	1,097,259	1,206,945	1,147,461
		1,545,289	1,614,880	1,585,073

The accompanying notes on pages 11 to 28 form an integral part of these interim condensed financial statements.

The interim condensed financial statements were authorised for issue on 29 July 2015 in accordance with the resolution of the Board of Directors.

David Eldon
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the six months period ended 30 June 2015

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Available-for- sale fair value reserve RO'000	Foreign exchange reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2014	200,031	33,759	1,486	5,066	-	65,505	305,847
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	5,668	5,668
Other comprehensive income / (expenses) for the period							
Effect of currency translation	-	-	42	-	(25)	-	17
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	3	-	-	3
Total other comprehensive income / (expenses) for the period	-	-	42	3	(25)	-	20
Total comprehensive income / (expenses) for the period	-	-	42	3	(25)	5,668	5,688
Transfer from retained profits	-	-	-	-	(229)	229	-
Transaction with shareholders, recorded directly in equity	-	-	42	3	(254)	5,897	5,688
Dividend paid for 2013	-	-	-	-	-	(7,604)	(7,604)
At 30 June 2014	200,031	33,759	1,528	5,069	(254)	63,798	303,931
At 1 January 2015	200,031	34,984	1,446	4,597	(497)	69,316	309,877
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	5,169	5,169
Other comprehensive income / (expenses) for the period							
Exchange differences	-	-	23	-	250	-	273
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	(391)	-	-	(391)
Total other comprehensive income / (expenses) for the period	-	-	23	(391)	250	-	(118)
Total comprehensive income for the period	-	-	23	(391)	250	5,169	5,051
Transfer to retained profits on sale of India operations	-	-	(1,469)	-	-	1,469	-
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2014	-	-	-	-	-	(11,024)	(11,024)
At 30 June 2015	200,031	34,984	-	4,206	(247)	64,930	303,904

The accompanying notes on pages 11 to 28 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 2015

	<i>Notes</i>	Six months ended 30 June 2015 RO' 000	Six months ended 30 June 2014 RO' 000
Cash flows from operating activities			
Profit before tax		6,204	6,411
Adjustments for:			
– Loan impairment (charges) and other credit risk provisions - net of recoveries		2,246	1,235
– Depreciation of property and equipment		969	1,048
– Amortisation of intangible assets		1,143	1,143
– Gain on sale of a financial investment		(664)	-
– Gain on sale of property and equipment		(25)	(444)
– Effect of currency translation		(52)	(65)
– change in operating assets	28	(157,536)	(149,646)
– change in operating liabilities	28	102,082	151,408
– tax paid		(915)	(218)
Net cash (used in) / generated from operating activities		(46,548)	10,872
Cash flows from investing activities			
Purchase of financial investments		(3,109,838)	(3,842,972)
Proceeds from maturity of financial investments		3,304,661	3,965,593
Purchase of property and equipment	16	(1,487)	(1,084)
Proceeds from sale of property and equipment		680	450
Cash out flow from sale of India operation, net of cash and cash equivalents		(2,544)	-
Net cash generated from investing activities		191,472	121,987
Cash flows from financing activity			
Dividends paid		(11,024)	(7,604)
Net cash used in financing activity		(11,024)	(7,604)
Net change in cash and cash equivalents		133,900	125,255
Cash and cash equivalents at the beginning of the period		290,057	254,224
Cash and cash equivalents at the end of the period	28	423,957	379,479

The accompanying notes on pages 11 to 28 form an integral part of these interim condensed financial statements.

1 Legal status and activities

HSBC Bank Oman S.A.O.G. ('the Bank') 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 and Pakistan. The registered 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.

HSBC Bank Middle East Limited ('HBME') holds 51% of the shares in the HBON. 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 audited financial statements of the Bank as at and for the year ended 31 December 2014 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.

(b) Presentation of information

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

(c) Corresponding figures

These interim condensed financial statements include corresponding figures information as required by IAS 34 and CMA.

Notes to the interim condensed financial statements (unaudited)

2 Basis of preparation (continued)

(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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015. None of these is expected to have a significant effect on the interim condensed financial statements of the Bank except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

The mandatory application date for IFRS 9 as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The Bank is currently assessing the impact of IFRS 9 will have on the financial statements but due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationship, it is not possible at this stage to quantify the potential impact as at the date of the approval of these interim condensed 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 2014.

4 Products and services

The Bank provides a comprehensive range of banking and related financial services to its customers.

- Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking needs, 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, 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.

Notes to the interim condensed financial statements (unaudited)

5 Interest income

Interest bearing assets earned interest at an overall annualized rate of 2.83% for the six months period ended 30 June 2015 (30 June 2014 – 2.60%).

6 Interest expense

For the six months period ended 30 June 2015, the average overall annualised cost of funds was 0.38% (30 June 2014 – 0.37%).

7 Other operating income

	Six months period ended 30 June 2015	Six months period ended 30 June 2014
	RO'000	RO'000
Gain on sale of India operations*	815	-
Gain on sale of a financial investment	664	-
Gain on sale of property and equipment	25	444
Impairment of available-for-sale equity securities	(22)	-
Other income	93	104
	1,575	548

*Sale of the HBON's banking operations in India

On 16 April 2014, HBON announced an agreement to sell its banking operations in India to Doha Bank QSC ("Doha Bank"). On 31 March 2015 HBON completed the disposal at sale consideration (net of tax) of RO7.1m and recorded a gain on disposal of RO0.8m.

8 Loan impairment (charges) and other credit risk provisions - net of recoveries

	Six months period ended 30 June 2015	Six months period ended 30 June 2014
	RO'000	RO'000
Provided during the period – general (note 12)	(1,713)	(1,344)
Provided during the period – specific (note 12)	(3,550)	(2,706)
Provisions released/written back (note 12)	1,574	1,354
Adjustments as a result of fair value unwind	301	115
Reserved interest released	214	305
Written-off loans recovered	1,201	1,110
Bad debts directly written off to statement of profit or loss	(273)	(69)
	(2,246)	(1,235)

Notes to the interim condensed financial statements (unaudited)

9 Operating expenses

	Six months period ended 30 June 2015 RO'000	Six months period ended 30 June 2014 RO'000
Employee compensation and benefits	(12,380)	(11,939)
General and administrative expenses*	(13,180)	(12,343)
Depreciation of property and equipment	(969)	(1,048)
	<u>(26,529)</u>	<u>(25,330)</u>

*General and administrative expenses for the current period include the RO0.6m of “Mandoos Prize” draw expenses (30 June 2014: RO0.9m)

10 Amortisation of intangible assets

	Six months period ended 30 June 2015 RO'000	Six months period ended 30 June 2014 RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposits	(880)	(880)
Customer relationships	(263)	(263)
	<u>(1,143)</u>	<u>(1,143)</u>

11 Earnings per share basic

Earnings per share basic is calculated by dividing the profit attributable to the shareholders by the weighted average number of shares in issue, as follows:

	Six months period ended 30 June 2015	Six months period ended 30 June 2014	For the year ended 31 December 2014
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Net profit for the period (RO'000)	5,169	5,668	12,249
Earnings per share basic – annualised (RO)	0.005	0.006	0.006

Notes to the interim condensed financial statements (unaudited)

12 Loans and advances to customers - net

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

	30 June	30 June	31 December
	2015	2014	2014
	RO'000	RO'000	RO'000
Overdrafts	71,406	86,590	79,453
Loans	1,301,052	1,125,561	1,138,184
Bills discounted / purchased	30,491	29,585	43,522
Gross loans and advances	1,402,949	1,241,736	1,261,159
Provision for loan impairment - specific	(28,676)	(36,471)	(36,192)
Provision for loan impairment - general*	(17,590)	(15,583)	(15,880)
Reserved interest	(42,017)	(53,068)	(47,774)
Net loans and advances	1,314,666	1,136,614	1,161,313

*General provision comprises of provision on portfolio basis for loans and advances to customers.

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

	30 June	30 June	31 December
	2015	2014	2014
	RO'000	RO'000	RO'000
0-5%	858,516	629,968	688,267
5-7%	348,634	349,734	346,635
7-10%	133,178	203,116	160,251
10-13%	44,407	45,290	52,134
more than 13%	18,214	13,628	13,872
	1,402,949	1,241,736	1,261,159

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

	30 June	30 June	31 December
	2015	2014	2014
	RO'000	RO'000	RO'000
0-6 months	509,771	417,375	380,075
6-12 months	17,417	26,269	20,160
1-3 years	54,650	84,682	76,893
3-5 years	243,250	149,332	203,931
More than 5 years	489,578	458,956	480,254
	1,314,666	1,136,614	1,161,313

12 Loans and advances to customers - net (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
Personal and consumer loans	468,531	442,416	456,808
Corporate and commercial			
Import trade	208,977	192,457	162,422
Construction	79,820	67,485	82,496
Manufacturing	218,000	160,891	170,345
Wholesale and retail trade	49,068	42,815	39,678
Export trade	5,194	9,817	7,494
Electricity, gas, water, transportation and communication	116,438	71,857	87,472
Services	223,596	196,036	203,606
Mining and quarrying	23,303	28,053	19,304
Others	10,022	28,440	31,518
	934,418	797,851	804,335
Financial institutions	-	1,469	16
Total gross loans and advances	1,402,949	1,241,736	1,261,159
Provision for loan impairment - specific	(28,676)	(36,471)	(36,192)
Provision for loan impairment - general	(17,590)	(15,583)	(15,880)
Reserved interest	(42,017)	(53,068)	(47,774)
Net loans and advances	1,314,666	1,136,614	1,161,313
Non performing loans	78,276	98,024	92,573

Specific provision for loan impairment and reserved interest represents 90.3% (30 June 2014 – 91.3% and 31 December 2014 – 90.7%) of gross non-performing loans and advances.

Notes to the interim condensed financial statements (unaudited)

12 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 2015 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2015	36,192	15,880	52,072
Currency translation effect on opening balance	(7)	-	(7)
Movement due to sale of India operations	-	(3)	(3)
Provided during the period (note 8)	3,550	1,713	5,263
Provisions released (note 8)	(1,574)	-	(1,574)
Written off during the period	(9,485)	-	(9,485)
Balance at 30 June 2015	28,676	17,590	46,266

The movement on provision for loan impairment for the six months period ended 30 June 2014 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total Provision RO'000
Balance at 1 January 2014	37,049	14,237	51,286
Currency translation effect on opening balance	50	2	52
Provided during the period (note 8)	2,706	1,344	4,050
Provisions released (note 8)	(1,354)	-	(1,354)
Written off during the period	(1,980)	-	(1,980)
Balance at 30 June 2014	36,471	15,583	52,054

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

	30 June 2015 RO'000	30 June 2014 RO'000
Balance at the beginning of the period	47,774	49,717
Currency translation effect on opening balance	(1)	7
Reserved during the period	4,822	5,505
Released to the statement of profit or loss	(597)	(305)
Written off during the period	(9,981)	(1,856)
Balance at end of the period	42,017	53,068

The estimated fair value of loans and advances is RO1,292.2m as of 30 June 2015. (30 June 2014: RO1,115.8m).

HSBC Bank Oman S.A.O.G.

Notes to the interim condensed financial statements (unaudited)

13 Financial investments – classified as available for sale

Financial investments details are provided as follows:

	Fair value 30 June 2015 RO'000	Fair value 30 June 2014 RO'000	Fair value 31 December 2014 RO'000	Carrying value 30 June 2015 RO'000	Carrying value 30 June 2014 RO'000	Carrying value 31 December 2014 RO'000	Cost 30 June 2015 RO'000	Cost 30 June 2014 RO'000	Cost 31 December 2014 RO'000
Marketable securities – MSM									
Finance	2,467	2,277	2,370	2,467	2,277	2,370	1,911	1,911	1,911
Insurance	398	352	398	398	352	398	340	340	340
Services	-	428	-	-	428	-	-	361	-
Industrial	33	41	43	33	41	43	33	54	54
Government bonds	44,214	68,086	44,531	44,214	68,086	44,531	43,569	67,123	43,736
	47,112	71,184	47,342	47,112	71,184	47,342	45,853	69,789	46,041
Marketable securities – Foreign by Sector									
Government securities	-	9,984	9,759	-	9,984	9,759	-	9,984	9,759
Foreign shares	5,446	4,273	5,274	5,446	4,273	5,274	2,340	2,340	2,340
	5,446	14,257	15,033	5,446	14,257	15,033	2,340	12,324	12,099
Unquoted and other investments									
Certificates of deposits				198,309	600,037	590,022	198,311	600,038	590,022
Treasury bills				212,972	-	-	213,088	-	-
Unquoted Omani shares				1,010	1,010	1,010	1,010	1,010	1,010
Unquoted foreign shares				67	67	67	67	67	67
Investment fund units				4,116	14,132	12,677	3,590	11,717	11,717
				416,474	615,246	603,776	416,066	612,832	602,816
Total				469,032	700,687	666,151	464,259	694,945	660,956

Notes to the interim condensed financial statements (unaudited)

13 Financial investments (continued)

Details of AFS investments are as follows:	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
Cost of:			
Quoted - Foreign Government securities	-	9,984	9,759
Quoted - Equity and other investments	48,193	72,129	48,381
Unquoted and other investments	416,066	612,832	602,816
	464,259	694,945	660,956
Revaluation gain of:			
Equity and other securities	4,773	5,742	5,195
	469,032	700,687	666,151

14 Other assets

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
Derivatives - positive mark to market	3,420	1,169	2,489
Prepayments and accrued income	1,994	1,673	1,649
Deferred tax asset	3,016	3,705	3,026
Acceptances	29,179	42,457	30,550
Others	3,423	4,983	1,719
	41,032	53,987	39,433

15 Intangible assets

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
Core deposits	12,306	12,306	12,306
Customer relationships	3,691	3,691	3,691
	15,997	15,997	15,997
Less: amortised	(7,046)	(4,761)	(5,903)
	8,951	11,236	10,094

Notes to the interim condensed financial statements (unaudited)

16 Property and equipment

RO1.5m of property and equipment were added during the period (30 June 2014: RO1.1m) and RO1.1m of property and equipment were sold and written off during the period (30 June 2014: RO12.0m)

17 Deposits from customers

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
Deposits details are as follows:			
Current and call	1,019,100	1,178,391	969,732
Savings	479,750	463,701	457,911
Time deposits	442,968	313,752	419,780
Others	3,345	4,267	4,916
	1,945,163	1,960,111	1,852,339

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

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
0-6 months	790,511	786,145	727,392
6-12 months	262,907	296,134	259,458
1-3 years	145,608	128,114	142,332
3-5 years	328,381	308,104	321,083
Over 5 years	417,756	441,614	402,074
	1,945,163	1,960,111	1,852,339

The interest rate bands of deposits are as follows:

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
0-2%	1,758,581	1,761,688	1,660,260
2-4%	186,571	195,442	188,830
4-6%	-	7	7
6-8%	11	41	360
8-10%	-	2,933	2,882
	1,945,163	1,960,111	1,852,339

Notes to the interim condensed financial statements (unaudited)

18 Other liabilities

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
Derivatives – negative mark to market	531	658	1,009
Deferred tax liability	786	1,253	1,128
Retirement benefit liability	500	596	446
Acceptances	29,179	42,457	30,550
Tax liability	2,472	4,426	2,368
Accruals and deferred income	3,552	3,778	5,617
Obligation under finance lease	911	1,095	1,153
Others	14,123	10,499	8,459
	52,054	64,762	50,730

19 Contingent liabilities, commitments and derivatives

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
Forward forex contracts – sales	141,581	170,104	154,021
Forward forex contracts – purchases	141,581	171,833	155,670
Currency swaps	-	73,575	-
Interest rate swaps	91,836	95,557	91,836
Undrawn unconditionally cancellable commitments	500,219	633,855	566,465
Undrawn unconditionally non-cancellable commitments	222,042	62,021	179,469
	1,097,259	1,206,945	1,147,461

As at 30 June 2015, 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 therefore they do not consider it necessary to make any additional provisions in this regard.

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

	Valuation techniques			Total RO'000
	Quoted market price Level 1 RO'000	Using observable inputs Level 2 RO'000	Financial instruments carried at cost RO'000	
At 30 June 2015				
Assets				
Derivatives	-	3,420	-	3,420
Financial investments: available- for-sale	52,558	415,397	1,077	469,032
Liabilities				
Derivatives	-	531	-	531
At 30 June 2014				
Assets				
Derivatives	-	1,169	-	1,169
Financial investments: available- for-sale	85,441	614,169	1,077	700,687
Liabilities				
Derivatives	-	658	-	658

Investments carried at cost and derivatives

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques.

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

Foreign exchange contracts are valued based on market prices. The market value adjustment of foreign exchange contracts are included in the book value of other assets.

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

Notes to the interim condensed financial statements (unaudited)

21 Asset liability mismatch

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

Maturities	30 June 2015			30 June 2014			31 December 2014		
	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	1,308,692	892,152	416,540	1,476,375	901,259	575,116	1,293,262	807,501	485,761
6-12 months	101,606	268,567	(166,961)	43,206	303,209	(260,003)	32,721	273,076	(240,355)
1-3 years	95,600	145,608	(50,008)	108,336	128,137	(19,801)	116,597	142,352	(25,755)
3-5 years	277,150	328,381	(51,231)	197,950	308,104	(110,154)	232,191	321,083	(88,892)
more than 5 years	567,790	716,130	(148,340)	554,109	739,267	(185,158)	568,141	698,900	(130,759)
	2,350,838	2,350,838	-	2,379,976	2,379,976	-	2,242,912	2,242,912	-

22 Exposure to credit risk

	Loans and advances (As per CBO)			Due from banks			Financial investments		
	30 June 2015	30 June 2014	31 December 2014	30 June 2015	30 June 2014	31 December 2014	30 June 2015	30 June 2014	31 December 2014
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Individually impaired – non performing	78,276	98,024	92,573	-	-	-	-	-	-
Provision for loan impairment specific and reserved interest	(70,693)	(89,539)	(83,966)	-	-	-	-	-	-
Carrying amount of non-performing	7,583	8,485	8,607	-	-	-	-	-	-
Past due and not impaired	18,556	12,392	11,105	-	-	-	-	-	-
Neither past due nor impaired	1,306,117	1,131,320	1,157,481	152,972	266,842	155,902	469,032	700,687	666,151
General provision	(17,590)	(15,583)	(15,880)	-	-	-	-	-	-
Total carrying amount	1,314,666	1,136,614	1,161,313	152,972	266,842	155,902	469,032	700,687	666,151

23 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 2014 – 2,000,312,790 shares of RO 0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO 0.100 each (30 June 2014 – 7,500 million of shares of RO 0.100 each)

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 2015 Number of shares	30 June 2014 Number of shares	31 December 2014 Number of shares
HSBC Bank Middle East Limited	1,020,159,523	1,020,159,523	1,020,159,523

24 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. During the period the closing balance of statutory reserves has been transferred to retained earnings due to sale of India operations.

(c) Available-for-sale fair value reserve

Available-for-sale fair value reserve represents fair value changes (net of tax) in available-for-sale financial assets.

(d) Foreign exchange reserve

Foreign exchange reserve represents exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, recognised in other comprehensive income. Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in other comprehensive income are reclassified to the statement of profit or loss as a reclassification adjustment when the gain or loss on disposal is recognised.

25 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.

Notes to the interim condensed financial statements (unaudited)

25 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:

30 June 2015	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	-	36,446	36,446
Current, deposit and other accounts	-	27	-	21,263	21,290
Letters of credit and guarantees	-	-	-	9,025	9,025
Due from banks	35,000	-	-	-	35,000
Due to banks	18,229	-	-	-	18,229
For the period ended 30 June 2015					
Net fee income	108	-	-	-	108
Other operating expenses	(6,080)	(10)	(1,025)	(107)	(7,222)
Other income	-	9	-	-	9
Purchase of property and equipment	-	-	-	(2)	(2)

30 June 2014	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	-	12,579	12,579
Current, deposit and other accounts	-	27	-	31,649	31,676
Letters of credit and guarantees	-	-	-	8,716	8,716
Due from banks	74,051	-	-	-	74,051
Due to banks	35,113	-	-	-	35,113
For the period ended 30 June 2014					
Net fee income	71	-	-	-	71
Other operating expenses	(5,617)	(14)	(1,092)	(62)	(6,785)

Related party loans and advances bear interest at rates between 1.3% p.a. and 8% p.a. (30 June 2014: between 1.5% p.a. and 6.5% p.a.) Related party deposits bear interest at rates between 0.25% p.a. and 1.25% p.a. (30 June 2014: between 0.25% p.a. and 1.25% p.a.)

Notes to the interim condensed financial statements (unaudited)

26 Operating segments

The factors used to identify the Bank's reporting segment are discussed in the financial statements for the year ended 31 December 2014.

Geographical areas

A geographical analysis of key financial data by location of primary assets as at 30 June 2015 is set out below:

	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
30 June 2015				
Net operating income before loan impairment charges and other credit risk provisions	36,222	(100)	-	36,122
Loan impairment charges and other credit risk provisions – net of recoveries	(2,246)	-	-	(2,246)
Net operating income	33,976	(100)	-	33,876
Total operating expenses	(27,455)	(217)	-	(27,672)
Profit before tax	6,521	(317)	-	6,204
Tax expense	(1,028)	(7)	-	(1,035)
Profit for the period	5,493	(324)	-	(5,169)
Loans and advances to customers (net)	1,314,666	-	-	1,314,666
Total assets	2,350,795	15,469	(15,426)	2,350,838
Deposits from customers	1,945,127	36	-	1,945,163
Total liabilities	2,046,617	4,526	(4,209)	2,046,934

HBON had entered into an agreement to sell its banking business in Pakistan to Meezan Bank Limited. The transaction is subject to shareholders' and regulatory approvals. The sale will be at a small discount to the Net Asset Value of the business.

A geographical analysis of key financial data by location of primary assets as at 30 June 2014 is set out below:

	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
30 June 2014				
Net operating income before loan impairment charges and other credit risk provisions	34,104	15	-	34,119
Loan impairment charges and other credit risk provisions – net of recoveries	(1,236)	1	-	(1,235)
Net operating income	32,868	16	-	32,884
Total operating expenses	(25,945)	(528)	-	(26,473)
Profit before tax	6,923	(512)	-	6,411
Tax expense	(743)	-	-	(743)
Profit for the period	6,180	(512)	-	5,668
Loans and advances to customers (net)	1,136,566	48	-	1,136,614
Total assets	2,374,569	30,559	(25,152)	2,379,976
Deposits from customers	1,952,121	7,990	-	1,960,111
Total liabilities	2,074,154	12,412	(10,521)	2,076,045

Business line segment

Information regarding products and services is discussed in note 4 to these unaudited condensed interim financial statements. The results of each reportable segment have been presented in the financial statements as of 31 December 2014.

Notes to the interim condensed financial statements (unaudited)

27 Capital adequacy ratio

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. The Banks are required to maintain minimum capital adequacy ratio of 12.625% including capital conservation buffer for 2015 (30 June 2014 and 31 December 2014: 12.625%) in accordance with CBO stipulated guidelines.

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
CET 1/Tier 1 capital	281,340	276,716	281,124
Tier 2 capital (T2)	17,862	16,572	17,865
Total regulatory capital	299,202	293,288	298,989
Risk-weighted assets	1,713,060	1,591,473	1,639,028
CET 1 / Tier 1 capital ratio	16.42%	17.39%	17.15%
Total capital ratio	17.47%	18.43%	18.24%

28 Cash and cash equivalents

	30 June 2015 RO'000	30 June 2014 RO'000	31 December 2014 RO'000
<i>Unaudited interim condensed statement of financial position comprises:</i>			
Cash and balances with central banks	336,588	179,695	180,007
Due from banks	152,972	266,842	155,902
Due to banks	(49,717)	(51,172)	(29,966)
	439,843	395,365	305,943
Adjustment for items maturing after three months from date of acquisition and restricted balances	(15,886)	(15,886)	(15,886)
	423,957	379,479	290,057

Cash and cash equivalent comprise:

Cash and balances with central banks	320,702	163,809	164,121
Due from banks	152,972	266,842	155,902
Due to banks	(49,717)	(51,172)	(29,966)
Total	423,957	379,479	290,057

	30 June 2015 RO'000	30 June 2014 RO'000
Change in operating assets:		
Change in loans and advances to customers - net	(155,640)	(157,377)
Change in other assets	(1,896)	7,731
	(157,536)	149,646
Change in operating liabilities		
Change in deposits from customers	100,490	167,408
Change other liabilities	1,592	(16,000)
	102,082	151,408

Notes to the interim condensed financial statements (unaudited)

29 Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) is guided by the CBO through circular BM 1127 (BASEL III : Framework on Liquidity coverage ratio and LCR disclosure standards). Liquidity coverage ratio is calculated on monthly intervals and reported to the CBO. The Banks are required to maintain minimum liquidity coverage ratio of 60% for 2015 in accordance with CBO stipulated guidelines.

Liquidity coverage ratio disclosure for the period ended 30 June 2015:

	Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets		
1 Total High quality liquid assets (HQLA)	-	700,102
Cash outflows		
2 Retail deposits and deposits from small business customers, of which:	272,093	25,889
3 - Stable deposits	26,402	1,320
4 - Less stable deposits	245,691	24,569
5 Unsecured wholesale funding, of which:	1,258,175	540,331
6 - Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 - Non-operational deposits (all counterparties)	1,258,175	540,331
8 - Unsecured debt	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which	164,261	16,218
11 - Outflows related to derivative exposures and other collateral requirements	-	-
12 - Outflows related to loss of funding on debt products	-	-
13 - Credit and liquidity facilities	164,261	16,218
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	991,060	49,553
16 Total cash outflows (2+5+10+15)	-	631,991
Cash inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	304,924	221,986
19 Other cash inflows	-	-
20 Total cash inflows (17+18+19)	304,924	221,986
		Total Adjusted Value
21 Total HQLA		700,102
22 Total net cash outflows (16-20)		410,005
23 Liquidity coverage ratio (21/22)		171%

*simple average of monthly observations over the last three months (Apr –Jun 2015)

30 Corresponding figures

Certain corresponding figures for 2014 have been reclassified in order to conform to the presentation for the current period. Such reclassifications have not resulted in change in prior period reported profit and equity.