



HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report
30 June 2017



Interim Condensed Financial Report – 30 June 2017

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Presentation of information

This document comprises the Interim Condensed Financial Report – 30 June 2017 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 2017

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's financial results for the six months ended 30 June 2017.

It gives me great pleasure to report that in May we were awarded the Euromoney Award as the 'Best Bank in Oman' in recognition for the stellar performance we posted over 2016, which is an accolade we are proud of.

Performance Summary

Our first half performance shows a 3.8% increase in net profit to RO8.2m compared to RO7.9m for the same period in 2016, mainly due to lower loan impairment charges.

Net operating income, before loan impairment charges, decreased by 4.3% to RO35.8m compared to RO37.4m for the same period last year.

Net interest income declined by 2.6% to RO25.8m for the period ended 30 June 2017 compared to RO26.5m for the same period in 2016. This is mainly due to higher interest expenses on corporate deposits. Net fee income decreased by 21.5% to RO5.1m for the period ended 30 June 2017, due to lower credit facilities fees from corporate customers and lower cards and wealth revenue from retail customers.

The Net trading income increased by 14.6% to RO4.7m compared to RO4.1m for the same period in 2016 mainly due to higher trading volumes through FX swaps.

A net charge of RO1.3m has been reported for loan impairment charges compared to a net charge of RO3.4m for the same period in 2016. This was mainly due to a release from the general provision of RO0.9m due to the reduction in corporate loans which was partly offset by a net charge of RO0.6m in Wholesale and RO1.6m in the retail portfolio.

Operating expenses decreased by 0.8% to RO24.6m compared to RO24.8m for the same period in 2016. Cost discipline remains a key focus of management.

Loans and advances, net of provisions and reserved interest, fell by 4.9% to RO1,331.1m compared to RO1,399.1m as at 30 June 2016, mainly due to reduction in corporate loans.

Customer deposits increased by 6.8% to RO1,958.8m compared to RO1,834.3m as at 30 June 2016.

HBON's capital adequacy ratio decreased to 16.91% as at 30 June 2017 compared to 18.4% as at 30 June 2016, mainly due to the impact of regulatory changes in relation to the treatment of investments in certain overseas government securities.

Delivering the best customer experience

In Retail Banking and Wealth Management, we continued to build on the acquisition momentum started through our two main campaigns launched in 1Q around Mandoos savings and Advance accounts. This was followed by a spend campaign for our credit card holders, where they can get a chance to win OMR100 cash prize through a lucky draw. A summer campaign was also launched to promote the usage of our debit card.

We continued to enhance our digital banking penetration as we will soon launch the Mobile Clearing System, which allows customers to make instant money transfers to certain local banks within the country.

In Commercial Banking we recently conducted an event for our corporate customers that focused on the evolution of technology for payments across Treasury functions. 'The Future of Payments' event looked at the benefits for businesses of embracing and implementing technology across card, payment and trade finance operations. The event also gave an insight on how HSBC can help businesses achieve greater efficiency through our advanced technology and treasury management systems.

The event was received well by a large audience of HBON's customers and was a great example of the wide ranging relationship led partnership between HBON and our customer base.

Investing in our people and the community

In 2Q we launched the second phase of our tailor-made “absher in action” training workshops in partnership with Oman Sail, which were designed to help transform our employees’ performance in key areas related to customer service, teamwork, decision-making and problem solving.

In support of our strategic priority to implement the highest Global Standards, a “Risk Certification Programme” was launched in May as part of our Plans to embed FCC (Fighting Financial Crime) Culture in the Bank. This is in addition to 29 staff in risk management roles commencing International Compliance Association (ICA) Diplomas in “Governance, Risk and Compliance”, “Financial Crime Prevention” and “Anti Money Laundering”.

Throughout the year our staff have also gone through several class room based and online training programmes aiming to support them achieve their career aspirations.

Under the Bank’s Corporate Sustainability agenda, the Bank organized several charitable activities during the holy month of Ramadan. Throughout the activities the number of volunteers from the staff reached to more than 120 volunteers. The activities included a charity fair for construction sites workers, where several goods and commodities were distributed to them. This is in addition to two engagement events with the orphanage center and distributing gift vouchers to the needy families around the Sultanate.

Conclusion

Finally, and on behalf of the Board of Directors, we would like to express our thanks to all of our stakeholders, the Central Bank of Oman and the Capital Market Authority for their continued support.

I would like to take this opportunity to express our deepest wishes to His Majesty Sultan Qaboos Bin Said on the occasion of the Renaissance Day, confirming our continuous and full support as he continues to lead the Sultanate to further prosperity and development.

Sir Sherard Cowper-Coles
Chairman

Summary of unaudited results for the six months period ended 30 June 2017

	30 June 2017 RO'000	30 June 2016 RO'000	Change (%)
Loans and advances net of provisions and reserved interest	1,331,147	1,399,130	(4.9)
Customer deposits	1,958,800	1,834,278	6.8
Net assets	312,051	304,288	2.6
* Net assets per share	0.156	0.152	2.6
	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000	Change (%)
Net interest income	25,780	26,536	(2.8)
Profit for the period	8,217	7,855	4.6
** Earnings per share (annualised)	0.008	0.008	-
*** Capital adequacy ratio (CAR)	16.91%	18.38%	(1.5)

* *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) has been calculated by dividing the annualised 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.*



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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Bank Oman SAOG as at 30 June 2017, and the related interim condensed statement of comprehensive income for the three month and six month periods then ended, and interim condensed statements of 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 LLC

26 July 2017
Muscat, Sultanate of Oman



Unaudited interim condensed statement of comprehensive income for the six months period ended 30 June 2017

		Three months period ended 30 June 2017 RO'000	Three months period ended 30 June 2016 RO'000	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
Interest income	5	15,610	15,466	30,225	29,966
Interest expense	6	(2,260)	(1,918)	(4,445)	(3,430)
Net interest income		13,350	13,548	25,780	26,536
Fee income		3,080	4,086	6,351	7,754
Fee expense		(634)	(610)	(1,274)	(1,246)
Net fee income		2,446	3,476	5,077	6,508
Net trading income		2,039	1,786	4,730	4,114
Dividend income		105	2	111	116
Other operating income - net	7	32	137	84	159
Net operating income before loan impairment charges and other credit risk provisions		17,972	18,949	35,782	37,433
Loan impairment charges and other credit risk provisions - net of recoveries	8	(2,566)	(1,162)	(1,336)	(3,433)
Net operating income		15,406	17,787	34,446	34,000
Operating expenses	9	(11,840)	(12,083)	(23,422)	(23,687)
Amortisation of intangible assets	10	(572)	(572)	(1,143)	(1,143)
Total operating expenses		(12,412)	(12,655)	(24,565)	(24,830)
Profit before tax		2,994	5,132	9,881	9,170
Tax expense		(503)	(780)	(1,664)	(1,315)
Profit for the period		2,491	4,352	8,217	7,855
Other comprehensive (loss) / income					
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Available-for-sale investment					
-Fair value (loss) / gain		(84)	312	82	(4,715)
-Fair value gain reclassified to profit or loss on disposal		(3)	(195)	(37)	(195)
-Income tax		8	(102)	81	585
Other comprehensive (loss) / income for the period - net of tax		(79)	15	126	(4,325)
Total comprehensive income for the period		2,412	4,367	8,343	3,530
Earnings per share – basic and diluted (RO)					
-for the period	11	0.001	0.002	0.004	0.004
-annualised		0.005	0.009	0.008	0.008

The accompanying notes on pages 11 to 27 form an integral part of these interim condensed financial statements.

Unaudited interim condensed statement of financial position as at 30 June 2017

		At 30 June 2017 RO'000	At 30 June 2016 RO'000	Audited At 31 December 2016 RO'000
Assets				
Cash and balances with central banks		222,293	172,974	284,947
Due from banks		125,208	49,011	80,222
Loans and advances to customers - net	12	1,331,147	1,399,130	1,418,415
Financial investments	13	631,345	535,733	412,969
Other assets	14	28,260	46,324	23,299
Intangible assets	15	4,381	6,666	5,524
Property and equipment	16	26,243	26,796	26,504
Deferred tax assets		2,199	2,098	2,013
Total assets		2,371,076	2,238,732	2,253,893
Liabilities and equity				
Liabilities				
Due to banks		52,827	46,254	37,426
Deposits from customers	17	1,958,800	1,834,278	1,866,655
Other liabilities	18	42,238	50,792	30,021
Current tax liabilities		5,160	2,897	6,081
Deferred tax liabilities		-	223	-
Total liabilities		2,059,025	1,934,444	1,940,183
Equity				
Share capital	23	200,031	200,031	200,031
Legal reserve	24(a)	37,967	36,277	37,967
Available-for-sale fair value reserve	24(b)	(2,603)	(3,242)	(2,729)
Retained earnings		76,656	71,222	78,441
Net equity		312,051	304,288	313,710
Total liabilities and equity		2,371,076	2,238,732	2,253,893
Net assets per share - RO		0.156	0.152	0.157
Off-balance sheet items:				
Contingent liabilities and other commitments				
- Documentary credits		46,857	42,093	52,976
- Guarantees and performance bonds		339,451	367,014	356,423
- Others	19	834,504	814,281	903,659
		1,220,812	1,223,388	1,313,058

The accompanying notes on pages 11 to 27 form an integral part of these interim condensed financial statements.

The interim condensed financial statements were authorised for issue on 26 July 2017 in accordance with the resolution of the Board of Directors.

Sir Sherard Cowper-Coles
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the six months period ended 30 June 2017

	Share capital RO'000	Legal reserve RO'000	Available- for-sale fair value reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2016	200,031	36,277	1,083	71,125	308,516
Total comprehensive income / (loss) for the period					
Profit for the period	-	-	-	7,855	7,855
Other comprehensive (loss) for the period					
Net movement in fair value of available-for-sale investments (net of tax)	-	-	(4,325)	-	(4,325)
Total other comprehensive (loss) for the period	-	-	(4,325)	-	(4,325)
Total comprehensive (loss) / income for the period	-	-	(4,325)	7,855	3,530
Transaction with shareholders, recorded directly in equity					
Dividend paid for 2015	-	-	-	(7,758)	(7,758)
At 30 June 2016	200,031	36,277	(3,242)	71,222	304,288
At 1 January 2017	200,031	37,967	(2,729)	78,441	313,710
Total comprehensive income for the period					
Profit for the period	-	-	-	8,217	8,217
Other comprehensive income for the period					
Net movement in fair value of available-for-sale investments (net of tax)	-	-	126	-	126
Total other comprehensive income for the period	-	-	126	-	126
Total comprehensive income for the period	-	-	126	8,217	8,343
Transaction with shareholders, recorded directly in equity					
Dividend paid for 2016	-	-	-	(10,002)	(10,002)
At 30 June 2017	200,031	37,967	(2,603)	76,656	312,051

The accompanying notes on pages 11 to 27 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 2017

		Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
Cash flows from operating activities			
Profit before tax		9,881	9,170
Adjustments for:			
-Loan impairment charges and other credit risk provisions – net of recoveries	8	1,336	3,433
-Depreciation of property and equipment	9	828	847
-Amortisation of intangible assets	10	1,143	1,143
-Net (gain) on sale of financial investments	7	(31)	(90)
-Amortisation of discount on financial investments		(1,132)	(352)
-Employer's current service cost, with interest		95	83
-Finance leases charge		28	41
-Effect of currency translation		(457)	-
-Change in operating assets			
Change in loans and advances to customers – net		85,932	(201,755)
Change in other assets		(4,961)	(4,336)
-Change in operating liabilities			
Change in deposits from customers		92,145	31,940
Change in other liabilities		12,129	958
Retirement benefits paid		(35)	(169)
Tax paid		(2,690)	(920)
Net cash generated from / (used in) operating activities		194,211	(160,007)
Cash flows from investing activities			
Purchase of financial investments		(1,556,048)	(755,064)
Proceeds from maturity of financial investments		1,339,337	847,784
Purchase of property and equipment	16	(571)	(726)
Proceeds from sale of property and equipment		4	-
Net cash (used in) / generated from investing activities		(217,278)	91,994
Cash flows from financing activities			
Dividends paid		(10,002)	(7,758)
Finance leases paid		-	(294)
Net cash used in financing activities		(10,002)	(8,052)
Net change in cash and cash equivalents		(33,069)	(76,065)
Cash and cash equivalents at the beginning of the period		327,743	251,796
Cash and cash equivalents at the end of the period	28	294,674	175,731

The accompanying notes on pages 11 to 27 form an integral part of these interim condensed financial statements.

1 Legal status and activities

HSBC Bank Oman S.A.O.G. ('the Bank' or 'HBON') 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. The registered address 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 Middle East Holdings BV ('HMEH') holds 51% of the shares in HBON. The ultimate parent company of HBON 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 2016 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 used in 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.

(d) Use of estimates and assumptions

The preparation of interim condensed financial statements 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 impairment of loans and advances, the valuation of financial instruments and the impairment of available-for-sale financial assets.

2 Basis of preparation (continued)

(e) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of the Bank are provided in the Annual Report and Accounts 2016.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017. None of these are expected to have a significant effect on the interim condensed financial statements of the Bank.

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 2016.

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning on 1 January 2017 which have a material impact on the interim condensed financial statements.

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.
- Corporate Centre ('CT'): During 2017, the HBON management realigned certain functions into a Corporate Center, including Other and Balance Sheet Management ('BSM').

5 Interest income

Interest bearing assets earned interest at an overall annualised rate of 3.02% for the six months period ended 30 June 2017 (30 June 2016 – 3.13%).

	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
Loans and advances to customers	27,271	27,130
Financial investments	2,371	2,232
Due from banks	339	180
Others	244	424
	30,225	29,966

6 Interest expense

For the six months period ended 30 June 2017, the average overall annualised cost of funds was 0.45% (30 June 2016 – 0.37 %).

	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
Deposits from customers	(4,445)	(3,430)

7 Other operating income – net

	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
Gain on sale of financial investments	31	90
Other income	53	69
	84	159

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

	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
Released / (provided) during the period – general (note 12)	912	(2,224)
Provided during the period – specific (note 12)	(4,416)	(3,726)
Provisions released / written back – specific (note 12)	1,283	1,494
Adjustments as a result of fair value unwind	222	229
Reserved interest released	11	27
Written-off loans recovered	949	1,034
Bad debts directly written off to statement of comprehensive income	(297)	(267)
	(1,336)	(3,433)

9 Operating expenses

	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
Employee compensation and benefits	(11,333)	(11,865)
General and administrative expenses*	(11,261)	(10,975)
Depreciation of property and equipment	(828)	(847)
	<u>(23,422)</u>	<u>(23,687)</u>

* General and administrative expenses for the current period include the RO0.8m of “Mandoos Prize” draw expenses (30 June 2016: RO0.8m).

10 Amortisation of intangible assets

	Six months period ended 30 June 2017 RO'000	Six months period ended 30 June 2016 RO'000
This represents amortisation of intangible assets as a result of business combination and is 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 and diluted

Earnings per share 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 2017	Six months period ended 30 June 2017	Year ended 31 December 2016
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Net profit for the period / year (RO'000)	8,217	7,855	16,899
Earnings per share – basic and diluted (RO)			
- for the period	0.004	0.004	0.008
- annualised	0.008	0.008	0.008

Notes to the unaudited interim condensed financial statements (continued)

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 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Overdrafts	67,371	81,599	63,745
Credit cards	24,001	21,946	23,543
Loans	1,028,387	1,156,619	1,145,680
Clean import loans	266,195	201,987	258,076
Bills discounted / purchased	30,496	16,988	9,693
Gross loans and advances	1,416,450	1,479,139	1,500,737
Provision for loan impairment - specific	(26,954)	(27,108)	(26,508)
Provision for loan impairment - general*	(17,692)	(18,659)	(18,604)
Reserved interest**	(40,657)	(34,242)	(37,210)
Net loans and advances	1,331,147	1,399,130	1,418,415

* General provision represents collective provision on a portfolio of loans and advances to customers.

** Reserve interest forms part of specific provision for the purpose of IFRS.

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

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
0-5%	941,666	990,212	1,049,947
5-7%	336,442	343,940	314,569
7-10%	66,921	95,545	84,996
10-13%	38,254	25,395	26,310
More than 13%	33,167	24,047	24,915
	1,416,450	1,479,139	1,500,737

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

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
0-6 months	453,526	554,071	526,692
6-12 months	7,665	19,155	15,417
1-3 years	75,843	36,767	31,778
3-5 years	162,343	134,789	233,646
More than 5 years	631,770	654,348	610,882
	1,331,147	1,399,130	1,418,415

12 Loans and advances to customers – net (continued)**Concentration of loans and advances:**

Loans and advances to customers by industry sector

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Personal and consumer loans	486,801	486,528	484,581
Corporate and commercial			
Import trade	244,829	251,603	208,713
Construction	79,320	54,018	59,341
Manufacturing	103,934	307,902	241,838
Wholesale and retail trade	64,104	57,906	45,286
Electricity, gas, water, transportation and communication	170,225	104,952	113,153
Services	121,253	140,691	119,276
Mining and quarrying	85,688	11,192	87,869
Others	60,296	64,347	140,680
Total gross loans and advances	1,416,450	1,479,139	1,500,737
Provision for loan impairment - specific	(26,954)	(27,108)	(26,508)
Provision for loan impairment - general	(17,692)	(18,659)	(18,604)
Reserved interest	(40,657)	(34,242)	(37,210)
Net loans and advances	1,331,147	1,399,130	1,418,415
Non performing loans (note 22)	72,670	66,474	69,127

Specific provision for loan impairment and reserved interest represents 93.0% (30 June 2016 – 92.3% and 31 December 2016 – 92.2%) of gross non-performing loans and advances.

Provision for loan impairment and reserved interest

The movement on provision for loan impairment for the six months period ended 30 June 2017 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2017	26,508	18,604	45,112
Provided during the period (note 8)	4,416	-	4,416
Provisions released / written back (note 8)	(1,283)	(912)	(2,195)
Written off during the period	(2,687)	-	(2,687)
Balance at 30 June 2017	26,954	17,692	44,646

Notes to the unaudited interim condensed financial statements (continued)

12 Loans and advances to customers – net (continued)

The movement on provision for loan impairment for the six months period ended 30 June 2016 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total Provision RO'000
Balance at 1 January 2016	28,380	16,435	44,815
Provided during the period (note 8)	3,726	2,224	5,950
Provisions released / written back (note 8)	(1,494)	-	(1,494)
Written off during the period	(3,504)	-	(3,504)
Balance at 30 June 2016	<u>27,108</u>	<u>18,659</u>	<u>45,767</u>

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

	30 June 2017 RO'000	30 June 2016 RO'000
Balance at the beginning of the period	37,210	38,441
Reserved during the period	3,866	4,022
Released to the statement of comprehensive income	(248)	(406)
Written off during the period	(171)	(7,815)
Balance at end of the period	<u>40,657</u>	<u>34,242</u>

The estimated fair value of loans and advances is RO 1,305.2m as of 30 June 2017 (30 June 2016 – RO 1,367.1m and 31 December 2016 – RO 1,395m).

HSBC Bank Oman S.A.O.G.

Notes to the unaudited interim condensed financial statements (continued)

13 Financial investments – classified as available for sale ('AFS')

Financial investments details are provided as follows:

	Fair value 30 June 2017 RO'000	Fair value 30 June 2016 RO'000	Fair value 31 December 2016 RO'000	Carrying value 30 June 2017 RO'000	Carrying value 30 June 2016 RO'000	Carrying value 31 December 2016 RO'000	Cost 30 June 2017 RO'000	Cost 30 June 2016 RO'000	Cost 31 December 2016 RO'000
Marketable securities – MSM									
Insurance	-	378	371	-	378	371	-	334	330
Government bonds	78,232	82,353	70,697	78,232	82,353	70,697	81,298	86,750	74,454
	78,232	82,731	71,068	78,232	82,731	71,068	81,298	87,084	74,784
Other investments									
Treasury bills	549,892	448,875	338,362	549,892	448,875	338,362	549,529	448,422	337,712
Unquoted Omani shares*	260	260	260	260	260	260	260	260	260
Unquoted foreign shares*	7	67	7	7	67	7	7	67	7
Investment fund units	2,954	3,800	3,272	2,954	3,800	3,272	3,312	3,590	3,312
	553,113	453,002	341,901	553,113	453,002	341,901	553,108	452,339	341,291
Total	631,345	535,733	412,969	631,345	535,733	412,969	634,406	539,423	416,075

*Unquoted Omani shares and unquoted foreign shares are carried at cost, less provision for impairment if any.

Notes to the unaudited interim condensed financial statements (continued)

13 Financial investments – classified as available for sale ('AFS') (continued)

Details of AFS investments are as follows:	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Cost of:			
Quoted - equity and other investments	81,298	87,084	74,784
Other investments	553,108	452,339	341,291
	634,406	539,423	416,075
Revaluation loss	(3,061)	(3,690)	(3,106)
	631,345	535,733	412,969

14 Other assets

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Acceptances	17,112	30,870	15,639
Derivatives - positive mark-to-market	6,288	6,057	5,445
Prepayments and accrued income	923	1,189	1,084
Others	3,937	8,208	1,131
	28,260	46,324	23,299

15 Intangible assets

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 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	(11,616)	(9,331)	(10,473)
	4,381	6,666	5,524

16 Property and equipment

RO0.6m of property and equipment were added during the period (30 June 2016: RO 0.7m). Property and equipment disposed of during the period was RO0.02m (30 June 2016: nil).

17 Deposits from customers

Deposits details are as follows:	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Current and call	982,544	865,665	929,613
Savings	475,593	479,905	461,143
Time deposits	498,235	486,347	473,452
Others	2,428	2,361	2,447
	1,958,800	1,834,278	1,866,655

Notes to the unaudited interim condensed financial statements (continued)

17 Deposits from customers (continued)

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

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
0-6 months	721,336	636,146	681,272
6-12 months	260,345	317,144	274,196
1-3 years	396,466	345,743	351,350
3-5 years	161,872	152,590	157,841
Over 5 years	418,781	382,655	401,996
	1,958,800	1,834,278	1,866,655

The interest rate bands of deposits are as follows:

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
0-2%	1,752,872	1,558,294	1,633,752
2-4%	205,928	275,984	232,903
	1,958,800	1,834,278	1,866,655

18 Other liabilities

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Derivatives – negative mark-to-market	4,463	1,442	228
Retirement benefit liability	815	550	755
Acceptances	17,112	30,870	15,639
Provisions	1,028	216	711
Accruals and deferred income	5,506	5,906	6,650
Obligation under finance lease	492	711	464
Others	12,822	11,097	5,574
	42,238	50,792	30,021

19 Contingent liabilities, commitments and derivatives

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Undrawn unconditionally cancellable commitments	546,286	474,679	643,566
Undrawn unconditionally non-cancellable commitments	62,883	84,172	97,385
Forward foreign exchange contracts	148,335	178,430	85,708
Interest rate swaps	77,000	77,000	77,000
	834,504	814,281	903,659

As at 30 June 2017, 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 the management does 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		
	Level 1 RO'000	Level 2 RO'000	Total RO'000
At 30 June 2017			
Assets			
Derivatives	-	6,288	6,288
Financial investments: available-for-sale	-	631,078	631,078
Liabilities			
Derivatives	-	4,463	4,463
Deposits from customers	-	83,140	83,140
At 30 June 2016			
Assets			
Derivatives	-	6,057	6,057
Financial investments: available-for-sale	378	535,028	535,406
Liabilities			
Derivatives	-	1,442	1,442
Deposits from customers	-	82,997	82,997
At 31 December 2016			
Assets			
Derivatives	-	5,445	5,445
Financial investments: available-for-sale	371	412,331	412,702
Liabilities			
Derivatives	-	228	228
Deposits from customers	-	82,404	82,404

Financial investments 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 for the year ended 31 December 2016.

Notes to the unaudited interim condensed financial statements (continued)

21 Asset liability mismatch

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

Maturities	30 June 2017			30 June 2016			31 December 2016		
	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	1,360,251	820,850	539,401	1,221,265	736,147	485,118	1,138,540	753,399	385,141
6-12 months	17,432	269,186	(251,754)	58,204	325,164	(266,960)	123,068	292,444	(169,376)
1-3 years	104,485	396,549	(292,064)	78,580	345,743	(267,163)	56,889	351,350	(294,461)
3-5 years	205,318	161,872	43,446	180,574	152,590	27,984	279,300	157,841	121,459
more than 5 years	683,590	722,619	(39,029)	700,109	679,088	21,021	656,096	698,859	(42,763)
	2,371,076	2,371,076	-	2,238,732	2,238,732	-	2,253,893	2,253,893	-

22 Exposure to credit risk

Loans and advances to customers - net

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Individually impaired – non performing	72,670	66,474	69,127
Provision for loan impairment - specific and reserved interest (note 12)	(67,611)	(61,350)	(63,718)
Carrying amount of non-performing Past due and not impaired	5,059	5,124	5,409
1-30 days	19,268	24,919	7,544
31-60 days	2,550	2,222	3,823
61-89 days	1,803	1,480	1,744
Neither past due nor impaired	1,320,159	1,384,044	1,418,499
Provision for loan impairment - general (note 12)	(17,692)	(18,659)	(18,604)
Total carrying amount (note 12)	1,331,147	1,399,130	1,418,415

Neither past due nor impaired assets

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
Balances with central bank	192,910	129,145	250,767
Due from banks	125,208	49,011	80,222
Financial investments	628,124	531,228	409,059
Other assets	27,337	45,135	22,215
	973,579	754,519	762,263

23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 June 2016 and 31 December 2016 – 2,000,312,790 shares of RO0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO0.100 each (30 June 2016 and 31 December 2016 – 7,500 million 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 2017 Number of shares	30 June 2016 Number of shares	31 December 2016 Number of shares
HSBC Middle East Holdings BV	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.

24 Reserves (continued)

(b) 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.

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

The Bank's related parties include the parent, HSBC Group and related entities, key management personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and includes members of the Boards of Directors of the Bank.

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.

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:

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
30 June 2017					
Loans and advances	-	-	-	91,919	91,919
Current, deposit and other accounts	-	1,970	124	16,782	18,876
Letters of credit and guarantees	-	72,162	-	6,065	78,227
Due from banks	-	27,154	-	-	27,154
Due to banks	-	22,389	-	-	22,389
For the period ended 30 June 2017					
Net fee income	-	23	-	-	23
Other operating expenses	-	(4,601)	(10)	(42)	(4,653)
Purchase of property and equipment	-	-	-	(57)	(57)
	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
30 June 2016					
Loans and advances	-	-	9	38,111	38,120
Current, deposit and other accounts	-	11,153	74	9,014	20,241
Letters of credit and guarantees	-	77,542	-	7,830	85,372
Due from banks	-	10,732	-	-	10,732
Due to banks	-	13,947	-	-	13,947
For the period ended 30 June 2016					
Net fee expenses	-	27	-	-	27
Other operating expenses	-	(5,480)	(13)	(60)	(5,553)
Purchase of property and equipment	-	-	-	(6)	(6)

Notes to the unaudited interim condensed financial statements (continued)

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

31 December 2016	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
Loans and advances	-	-	-	62,064	62,064
Current, deposit and other accounts	-	1,432	337	9,151	10,920
Letters of credit and guarantees	-	87,005	-	6,410	93,415
Due from banks	-	14,727	-	-	14,727
Due to banks	-	16,509	-	-	16,509

Related party loans and advances bear interest at rates between 1.45% p.a. and 6.5% p.a. (30 June 2016: between 1.45% p.a. and 6% p.a.). Related party deposits bear interest at rates between 0.20% p.a. and 1.25% p.a. (30 June 2016: between 0.20% p.a. and 1.25% p.a.).

Compensation of key management personnel

	Six months ended 30 June 2017 RO'000	Six months ended 30 June 2016 RO'000
Wages, salaries and other short term benefits	678	706
Post-employment benefits	53	62
	<u>731</u>	<u>768</u>

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 2016.

	30 June 2017				Total
	CMB RO'000	RBWM RO'000	GB&M RO'000	CT RO'000	RO'000
Net interest income					
- External	4,168	13,691	5,579	2,342	25,780
- Internal	3,173	1,154	(1,324)	(3,003)	-
	<u>7,341</u>	<u>14,845</u>	<u>4,255</u>	<u>(661)</u>	<u>25,780</u>
Net fee income	1,777	1,805	1,580	(85)	5,077
Net trading income	706	635	1,847	1,542	4,730
Other operating income	24	68	54	49	195
Total operating income	<u>9,848</u>	<u>17,353</u>	<u>7,736</u>	<u>845</u>	<u>35,782</u>
Loan impairment (charges) and other credit risk provisions - net of recoveries	(1,078)	(1,647)	1,389	-	(1,336)
Net operating income	<u>8,770</u>	<u>15,706</u>	<u>9,125</u>	<u>845</u>	<u>34,446</u>
Total operating expenses	(5,504)	(15,851)	(2,857)	(353)	(24,565)
Profit before tax	<u>3,266</u>	<u>(145)</u>	<u>6,268</u>	<u>492</u>	<u>9,881</u>
Reportable segment assets	469,664	476,072	408,873	1,016,467	2,371,076
Reportable segment liabilities	<u>1,006,213</u>	<u>681,300</u>	<u>319,625</u>	<u>51,887</u>	<u>2,059,025</u>

Notes to the unaudited interim condensed financial statements (continued)

26 Operating segments (continued)

	30 June 2016				Total RO'000
	CMB RO'000	RBWM RO'000	GB&M RO'000	CT RO'000	
Net interest income					
- External	4,208	16,288	3,866	2,174	26,536
- Internal	2,085	(797)	(120)	(1,168)	-
	<u>6,293</u>	<u>15,491</u>	<u>3,746</u>	<u>1,006</u>	<u>26,536</u>
Net fee income	2,747	2,136	1,706	(81)	6,508
Net trading income	722	847	1,872	673	4,114
Other operating income	97	105	19	54	275
Total operating income	<u>9,859</u>	<u>18,579</u>	<u>7,343</u>	<u>1,652</u>	<u>37,433</u>
Loan impairment (charges) and other credit risk provisions - net of recoveries	252	(2,774)	(911)	-	(3,433)
Net operating income	<u>10,111</u>	<u>15,805</u>	<u>6,432</u>	<u>1,652</u>	<u>34,000</u>
Total operating expenses	(5,616)	(16,349)	(2,648)	(217)	(24,830)
Profit before tax	<u>4,495</u>	<u>(544)</u>	<u>3,784</u>	<u>1,435</u>	<u>9,170</u>
Reportable segment assets	<u>526,837</u>	<u>474,851</u>	<u>441,339</u>	<u>795,705</u>	<u>2,238,732</u>
Reportable segment liabilities	<u>809,510</u>	<u>698,510</u>	<u>392,574</u>	<u>33,850</u>	<u>1,934,444</u>

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 13.25% including capital conservation buffer for 2017 (30 June 2016 and 31 December 2016: 12.625%) in accordance with CBO stipulated guidelines.

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
CET 1 / Tier 1 capital	295,046	289,930	295,046
Tier 2 capital (T2)	18,640	16,682	18,640
Total regulatory capital	<u>313,686</u>	<u>306,612</u>	<u>313,686</u>
Risk-weighted assets	1,854,689	1,667,989	1,679,450
CET 1 / Tier 1 capital ratio	15.91%	17.38%	17.57%
Total capital ratio	16.91%	18.38%	18.68%

28 Cash and cash equivalents

	30 June 2017 RO'000	30 June 2016 RO'000	31 December 2016 RO'000
<i>Unaudited interim condensed statement of financial position comprises:</i>			
Cash and balances with central banks	222,293	172,974	284,947
Due from banks	125,208	49,011	80,222
Due to banks	(52,827)	(46,254)	(37,426)
Total	<u>294,674</u>	<u>175,731</u>	<u>327,743</u>

Notes to the unaudited interim condensed financial statements (continued)

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 80% for 2017 (for 30 June 2016: 70%) in accordance with CBO stipulated guidelines.

Liquidity coverage ratio disclosure for the period ended 30 June 2017:

	30 June 2017		30 June 2016	
	Total unweighted value (average*) RO'000	Total weighted value (average*) RO'000	Total unweighted value (average**) RO'000	Total weighted value (average**) RO'000
High quality liquid assets				
1 Total High quality liquid assets (HQLA)		802,771		621,034
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
2 -Stable deposits	669,808	50,807	699,517	52,803
3 -Less stable deposits	323,478	16,174	342,969	17,148
4 Unsecured wholesale funding, of which:				
5 -Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,368,530	565,404	1,199,545	503,285
6 -Non-operational deposits (all counterparties)	-	-	-	-
7 -Unsecured debt	1,368,530	565,404	1,199,545	503,285
8 Secured wholesale funding	-	-	-	-
9 Additional requirements, of which				
10 -Outflows related to derivative exposures and other collateral requirements	76,002	7,321	94,418	9,201
11 -Outflows related to loss of funding on debt products	-	-	-	-
12 -Credit and liquidity facilities	76,002	7,321	94,418	9,201
13 Other contractual funding obligations	-	-	-	-
14 Other contingent funding obligations	992,105	49,605	897,085	44,854
15 Total cash outflows (2+5+10+15)		673,137		610,143
Cash inflows				
17 Secured lending (e.g. reverse repos)	-	-	-	-
18 Inflows from fully performing exposures	147,510	116,554	197,134	115,764
19 Other cash inflows	-	-	-	-
20 Total cash inflows (17+18+19)	147,510	116,554	197,134	115,764
		Total Adjusted Value		Total Adjusted Value
21 Total HQLA		802,771		621,034
22 Total net cash outflows (16-20)		556,583		494,379
23 Liquidity coverage ratio (21/22)		144%		126%

*simple average of daily observations over the last three months (Apr – June 2017).

**simple average of monthly observations over the last three months (Apr – June 2016).

30 Corresponding figures

Certain corresponding figures for 2016 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.