



## **HSBC Bank Oman S.A.O.G.**

(formerly Oman International Bank S .A.O.G.)

## **Interim Condensed Financial Report**

**30 June 2012**



## Interim Condensed Financial Report 30 June 2012

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### **Presentation of Information**

This document comprises the Interim Condensed Financial Report 2012 for HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G. ('the Bank')). It contains Unaudited Interim Condensed Financial Statements, together with the Board of Directors Report, the Auditor's review report and the Summary of Unaudited Results.

**Board of Directors' Report on the six months results (unaudited) for the period ended 30 June 2012**

**Dear Shareholders,**

Further to an announcement on 18 April 2012, the Ministry of Commerce & Industry in Oman formally approved the merger of HSBC Bank Middle East Limited's Oman branch ('HSBC Oman') with Oman International Bank S.A.O.G. ('OIB'), and on 3 June 2012, the operations of OIB and HSBC Oman combined to form 'HSBC Bank Oman S.A.O.G'.

HSBC Holdings Plc acquired 51% of the combined entity through its indirect wholly owned subsidiary HSBC Bank Middle East Limited ('HBME'), contributing an injection of additional capital. The merger is accounted for as a reverse acquisition under International Financial Reporting Standard 3 ('IFRS 3'): 'Business Combinations', as HSBC acquired a controlling stake in OIB through the issue of new shares. Accordingly, for accounting purposes, OIB is treated as the 'accounting acquiree' and HSBC Oman as the 'accounting acquirer'. As a result, the financial statements of HSBC Bank Oman S.A.O.G. are shown as a continuation of those of HSBC Oman with one adjustment to reflect the legal capital of OIB.

OIB and HSBC Oman both enjoyed a long and rich heritage in Oman and combined, establish a significant presence in the Omani banking industry. HSBC Oman's merger with OIB is a natural continuation of the roles that both Banks have played in the development of the banking sector in Oman. The new entity now has one of the largest branch networks in the Sultanate, and will serve the needs of retail, corporate and institutional customers. With the successful completion of this transaction customers can now benefit from both HSBC Group's international network and a wider range of banking products and services.

***Performance Summary***

For the first half of 2012 net interest income was RO13.39m up 22% compared to RO10.98m for the same period in 2011. Other income improved to RO8.96m from RO6.43m in the same period in 2011. Operating expenses rose to RO13.11m compared to RO9.61m in the prior year. The bank's profit before provisions was RO9.24m, up 18% on RO7.81m for the corresponding period in 2011.

The amount provided for loan impairment charges net of recoveries was RO0.88m compared to a net recoveries of RO0.04m for the corresponding period in 2011. The increase was mainly due to higher general provisions.

For the six months ended 30 June 2012, the bank recorded a 5% increase in net profit to RO7.24m compared with RO6.88m for the corresponding period in 2011.

Loans and advances net of provisions and reserved interest rose to RO1,215m as at 30 June 2012 compared to RO484m as at 30 June 2011. Of the increase, RO685m is as a result of the merger while the remaining RO45m is due to growth in advances by the Bank.

Customer deposits stood at RO1,806m as at 30 June 2012 compared to RO725m as at 30 June 2011. RO1,014m of the increase is as a result of business combination while the remaining RO67m is due to growth in deposits by the Bank.

The bank's Share capital increased from RO96.81m to RO200m as a result of business combination.

**Board of Directors' Report on the six months results (unaudited) for the period ended 30 June 2012 (continued)**

*Looking forward*

With our newly expanded team, diverse geographical network and increased customer base, the business opportunities for HSBC Bank Oman S.A.O.G. are significant. Through a range of initiatives, we intend to ensure that the merger creates growth and new opportunities for our employees and the communities we serve in Oman:

- Aligning Retail Banking & Wealth Management and Commercial Banking with our global business models and platforms to provide a broad range of internationally competitive products and services across Oman.
- Implementing comprehensive and long term staff development opportunities to ensure the employees of HSBC Bank Oman S.A.O.G receive market leading training and global support
- Leveraging global expertise to drive value, improving product development and sales activity management
- Improving and updating IT platforms and systems, for faster deployment of solutions and increased access to online banking services
- Enhancing customer service and increasing revenue through the cross-sell of our products, propositions and services to existing and new customers using a customer centric, relationship driven model
- Enhancing and utilising the significant branch network and scale of the combined business to attract new customers, improve returns and profitability for our shareholders

Our purpose is to help businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. Our Bank is strongly positioned to take advantage of the growth in lending in the Banking sector in Oman, with a low cost deposit base and a strong distribution network, combined with an international established brand and the legacy of a much loved and highly cherished brand in Oman - OIB. The second half of 2012 will see the full integration of the two former entities to drive material value for our shareholders, employees and the communities we serve.

In closing, and on behalf of the Board of Directors, I would like to express appreciation and thanks to all our Customers, staff and management for their commitment, as well as to the Central Bank of Oman for their support and guidance. I would also like to thank the outgoing Board of Directors of OIB for their hard work and commitment to their shareholders in effecting this historic merger,

Finally, and also on behalf of the Board, I wish to express our deepest gratitude to His Majesty Sultan Qaboos Bin Said for the peace, stability, and growth that his reign has brought to Oman. We offer our full support as he continues to lead Oman and its people to further prosperity and development.

**Simon N Cooper**  
**Chairman**



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

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

### Introduction

We have reviewed the unaudited condensed statement of financial position of HSBC Bank Oman SAOG ("the Bank") as at 30 June 2012, and the related unaudited condensed statements of comprehensive income, changes in equity and cash flows for the six months period then ended, and other explanatory notes ("the interim financial information") set out on pages 6 to 30.

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

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Bank is not:

- i) prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'; and
- ii) in compliance, in all material respects, with the minimum disclosure requirements issued by the CMA.

29 July 2012

KPMG

Summary of unaudited results for the period ended 30 June 2012

	<b>30 June 2012</b>	30 June 2011	Change (%)
	<b>RO'000</b>	RO'000	
<b>Loans and advances net of provisions and reserved interest</b>	<b>1,214,579</b>	484,295	151%
<b>Customer deposits</b>	<b>1,806,352</b>	724,976	149%
<b>Net assets</b>	<b>294,189</b>	105,513	179%
* <b>Net assets per share</b>	<b>0.259</b>	0.109	137%
	<b>Six months period ended</b>	Six months period ended	Change (%)
	<b>30 June 2012</b>	30 June 2011	
	<b>RO'000</b>	RO'000	
<b>Net interest income</b>	<b>13,391</b>	10,982	22%
<b>Net profit for the period</b>	<b>7,243</b>	6,877	5%
** <b>Earnings per share (annualised)</b>	<b>0.013</b>	0.014	-7%
*** <b>Capital adequacy ratio (CAR)</b>	<b>15.81%</b>	15.45%	0.36%

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

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

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

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

Unaudited interim condensed statement of comprehensive income for the six months period ended 30 June 2012

	Notes	Quarter ended 30 June 2012 RO 000s	Quarter ended 30 June 2011 RO 000s	Six months ended 30 June 2012 RO 000s	Six months ended 30 June 2011 RO 000s
Interest income	6	9,933	6,536	16,246	13,319
Interest expense	7	(1,714)	(1,144)	(2,855)	(2,337)
<b>Net interest income</b>		<b>8,219</b>	5,392	<b>13,391</b>	10,982
Net fee income		2,186	1,625	4,098	3,627
Net exchange income		2,194	1,238	3,454	2,749
Dividend income		3	-	3	-
Other operating income	8	1,396	32	1,412	58
<b>Net operating income before loan impairment charges and other credit risk provisions</b>		<b>13,998</b>	8,287	<b>22,358</b>	17,416
Loan impairment charges and other credit risk provisions - net of recoveries	9	(661)	131	(882)	39
<b>Net operating income</b>		<b>13,337</b>	8,418	<b>21,476</b>	17,455
Operating expenses	10	(8,307)	(4,767)	(12,923)	(9,609)
Amortisation and impairment of intangible assets	11	(190)	-	(190)	-
<b>Total operating expenses</b>		<b>(8,497)</b>	(4,767)	<b>(13,113)</b>	(9,609)
<b>Profit before tax</b>		<b>4,840</b>	3,651	<b>8,363</b>	7,846
Tax expense		(597)	(419)	(1,120)	(969)
<b>Profit for the period</b>		<b>4,243</b>	3,232	<b>7,243</b>	6,877
<b>Other comprehensive income (expense)</b>					
Available for sale investments:					
- fair value gains		316	108	414	193
- effect of currency translation		(27)	-	(27)	-
- income taxes on fair value gains		(38)	(13)	(50)	(23)
		251	95	337	170
<b>Total comprehensive income for the period</b>		<b>4,494</b>	3,327	<b>7,580</b>	7,047
<b>Earnings per share - basic</b>	12	<b>0.014</b>	0.014	<b>0.013</b>	0.014

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

Unaudited interim condensed statement of financial position as at 30 June 2012

		At 30 June 2012	At 30 June 2011	Audited At 31 December 2011
	Notes	RO'000	RO'000	RO'000
<b>Assets</b>				
Cash and balances with central banks		128,516	71,442	41,401
Due from Banks		178,677	81,542	101,380
Loans and advances to customers - net	13	1,214,579	484,295	454,280
Financial investments	14	583,868	244,449	304,738
Other assets	15	211,415	34,641	66,871
Intangible assets	16&5	15,807	-	-
Property, plant and equipment	17	33,348	1,440	1,458
<b>Total assets</b>		<b>2,366,210</b>	<b>917,809</b>	<b>970,128</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Due to banks		39,747	40,181	25,699
Deposits from customers	18	1,806,352	724,976	747,750
Other liabilities	19	225,922	47,139	82,545
<b>Total liabilities</b>		<b>2,072,021</b>	<b>812,296</b>	<b>855,994</b>
<b>Equity</b>				
Share capital	24	200,031	96,805	96,805
Legal reserve	25(a)	32,093	30,442	32,093
Statutory reserve	25(b)	1,193	1,155	973
Merger reserve	25(c)	-	(81,387)	(82,856)
Available-for-sale fair value reserve	25(d)	201	-	-
Retained profits		60,671	58,498	67,119
<b>Total equity</b>		<b>294,189</b>	<b>105,513</b>	<b>114,134</b>
<b>Total equity and liabilities</b>		<b>2,366,210</b>	<b>917,809</b>	<b>970,128</b>
<b>Net assets per share</b>		<b>0.259</b>	<b>0.109</b>	<b>0.116</b>
<i>Off-balance sheet items:</i>				
<b>Contingent liabilities and commitments</b>				
- Documentary credits		231,406	113,072	85,333
- Guarantees		356,416	182,049	208,137
- Others	20	1,741,457	725,457	614,184
		<b>2,329,279</b>	<b>1,020,578</b>	<b>907,654</b>

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

The interim condensed financial statements were authorised for issue on 29 July 2012 in accordance with the resolution of the Board of Directors.

Simon N Cooper  
Chairman

Ewan Stirling  
Chief Executive Officer



HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)

Unaudited interim condensed statement of changes in equity for the six months period ended 30 June 2012

	Share capital	Legal reserve	Statutory reserve	Available-for-sale fair value reserve	Merger reserve (note 5)	Retained profits	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2011	91,325	30,442	912	-	(75,664)	51,451	98,466
Total comprehensive income for the period							-
Profit for the period	-	-	-	-	-	6,877	6,877
Other comprehensive income / (expense) for the period							
Effect of currency translation	-	-	(4)	-	4	-	-
Net movement in fair value of available-for-sale investments	-	-	-	-	-	170	170
Total other comprehensive income for the period	-	-	(4)	-	4	170	170
Total comprehensive income for the period	-	-	(4)	-	4	7,047	7,047
Transfer to statutory reserve	-	-	247	-	(247)	-	-
	-	-	243	-	(243)	7,047	7,047
Transaction with shareholders, recorded directly in equity							
Stock dividend issued for 2010	5,480	-	-	-	(5,480)	-	-
At 30 June 2011	96,805	30,442	1,155	-	(81,387)	58,498	105,513
<b>At 1 January 2012</b>	<b>96,805</b>	<b>32,093</b>	<b>973</b>	<b>-</b>	<b>(82,856)</b>	<b>67,119</b>	<b>114,134</b>
<b>Total comprehensive income for the period</b>							
Profit for the period	-	-	-	-	-	7,243	7,243
<b>Other comprehensive income / (expense) for the period</b>							
Effect of currency translation	-	-	(15)	1	-	(13)	(27)
Net movement in fair value of available-for-sale investments	-	-	-	200	-	164	364
Total other comprehensive income for the period	-	-	(15)	201	-	151	337
Total comprehensive income for the period	-	-	(15)	201	-	7,394	7,580
Movements as a result of merger	-	-	(50)	-	84,066	(13,557)	70,459
Transfer to statutory reserve	-	-	285	-	-	(285)	-
	-	-	220	201	84,066	(6,448)	78,039
<b>Transaction with shareholders, recorded directly in equity</b>							
Share capital issued	102,016	-	-	-	-	-	102,016
Stock dividend issued for 2011	1,210	-	-	-	(1,210)	-	-
<b>At 30 June 2012</b>	<b>200,031</b>	<b>32,093</b>	<b>1,193</b>	<b>201</b>	<b>-</b>	<b>60,671</b>	<b>294,189</b>

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

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**

**Unaudited interim condensed statement of cash flows for the six months period ended 30 June 2012**

	<b>Six months ended 30 June 2012 RO 000s</b>	Six months ended 30 June 2011 RO 000s
	<i>Note</i>	
<b>Cash flows from operating activities</b>		
Profit before tax	<b>8,363</b>	7,846
Adjustments for:		
– non-cash items included in profit before tax	<b>160</b>	141
– change in operating assets	<b>(93,940)</b>	920
– change in operating liabilities	<b>61,535</b>	25,207
– tax paid	<b>(2,044)</b>	(1,175)
Net cash (used in) / generated from operating activities	<b>(25,926)</b>	32,939
<b>Cash flows used in investing activities</b>		
Purchase of financial investments	<b>(2,349,923)</b>	(1,440,427)
Proceeds from maturity of financial investments	<b>2,245,000</b>	1,359,917
Purchase of property, plant and equipment	<b>(938)</b>	(371)
Cash and cash equivalents acquired as a result of merger (net)	<b>245,782</b>	-
Effect of currency translation	<b>(60)</b>	-
Net cash generated / (used in) investing activities	<b>139,861</b>	(80,881)
<b>Cash flows from financing activities</b>		
Additional capital contribution	<b>20,551</b>	-
Net cash generated from financing activities	<b>20,551</b>	-
<b>Net increase in cash and cash equivalents</b>	<b>134,486</b>	(47,942)
Cash and cash equivalents at the beginning of the period	<b>116,582</b>	160,245
Cash and cash equivalents at the end of the period	<b>29</b>	<b>251,068</b>

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

**1 Legal status and activities**

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

As further explained in note 5, on 3 June 2012, the operations of HSBC Bank Middle East Limited Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. Following the merger, HSBC Bank Middle East Limited holds 51% of the shares in the combined entity.

**2 Basis of preparation:**

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

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

The financial statements of the bank at 31 December 2011 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, the disclosure requirements and the applicable regulations of the Central Bank of Oman ("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.

During the period ended 30 June 2012, the bank adopted a number of new standards and interpretations, and amendments thereto, which had an insignificant effect on these interim condensed financial statements.

**(b) Presentation of information**

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

**(c) Comparative information**

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

As further explained in note 5, on 3 June 2012, the operations of HSBC Bank Middle East Limited Oman branches merged with OIB. Following the merger, HSBC Bank Middle East Limited holds 51% of the shares in the combined entity. The merger is accounted for as a reverse acquisition under IFRS 3 – 'Business Combinations' due to HSBC acquiring a controlling stake in OIB through the issue of new shares of OIB. Accordingly, OIB is treated as the "accounting acquiree" and HSBC Bank Middle East Limited Oman branches are treated as the "accounting acquirer" for accounting purposes. As a result, the financial statements of HSBC Bank Oman S.A.O.G. are shown as a continuation of the financial statements of HSBC Bank Middle East Limited Oman branches with one adjustment to reflect the legal capital of OIB.

**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*

At 30 June 2012, a number of standards and amendments to standards had been issued by the IASB, which are not effective for these interim condensed financial statements. In addition to the projects to complete financial instrument accounting, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting, which together with the standards described below, will represent widespread and significant changes to accounting requirements from 2013.

**Standards and Interpretations issued by the IASB**

*Standards applicable in 2013*

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements' ('IFRS 10'), IFRS 11 'Joint Arrangements' ('IFRS 11') and IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are required to be applied retrospectively.

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 11 places more focus on the investors' rights and obligations than on structure of the arrangement, and introduces the concept of a joint operation. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities.

Based on the bank's assessment to date, we do not expect IFRS 10 and IFRS 11 to have a material effect on the bank's financial statements.

In May 2011, the IASB also issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

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

**2 Basis of preparation (continued)**

*(e) Future accounting developments (continued)*

**Standards and Interpretations issued by the IASB (continued)**

*Standards applicable in 2013(continued)*

The bank is currently assessing IFRS 13 and it is not practicable to quantify the effect as at the date of the publication of these interim condensed financial statements, which will depend on final interpretations of the standard, market conditions and the bank's holdings of financial instruments at 1 January 2013.

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). The revised standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The bank is currently assessing IAS 19 and it is not practical to quantify the effect as at the date of the publication of these interim condensed financial statements.

In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively.

*Standards applicable in 2014*

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

The bank is currently assessing the impact of these clarifications but it is not practicable to quantify the effect as at the date of the publication of these interim condensed financial statements.

*Standards applicable in 2015*

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

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

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

The IASB re-opened the requirements for classification and measurement in IFRS 9 in 2012 to address practice and other issues with an exposure draft of revised proposals expected in the second half of 2012. Therefore, the bank remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the effect of IFRS 9 as at the date of the publication of these interim condensed financial statements.

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**3 Accounting policies**

In addition to the accounting policies adopted by the bank for these interim condensed financial statements which are consistent with those described in the financial statements of HSBC Bank Middle East Limited Oman branches for the year ended 31 December 2011, the following accounting policy in relation to the business combinations accounting is also adopted:

The purchase method of accounting is used to account for the business combination. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregation of the consideration transferred, the amount of non-controlling interest and the fair value of the acquirer's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed. In the event that the amount of net assets acquired is in excess of the aggregation of the consideration transferred, the difference is recognised immediately in the statement of comprehensive income.

**4 Products and services**

The bank provides a comprehensive range of banking and related financial services to its customers in its geographical regions. The products and services offered to customers are organised by customer bank and global business.

- *Retail Banking and Wealth Management* offers a broad range of products and services to meet the personal banking, consumer finance and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance, wealth management and local and international payment services.
- *Commercial Banking* product offerings include the provision of financing services, payments and cash management, international trade finance, treasury and capital markets, commercial cards, insurance, wealth management and investment banking services.
- *Global Banking and Markets* provide tailored financial solutions to government, corporate and institutional clients. The client focused business lines deliver a wide range of banking capabilities; a markets business that provides services in credit, rates, foreign exchange, money markets and principal investment activities.

**5 Business combination**

On 3 June 2012, the operations of HSBC Bank Middle East Limited Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. As a result of the merger, HSBC Bank Middle East Limited acquired 51% of the combined entity for a total consideration of RO 151.92m. The merger is accounted for as a reverse acquisition under IFRS 3 due to HSBC acquiring a controlling stake in OIB through the issue of new shares of OIB. Accordingly, OIB is treated as the "accounting acquiree" and HSBC Bank Middle East Limited Oman branches are treated as the "accounting acquirer" for accounting purposes. As a result, the financial statements of HSBC Bank Oman S.A.O.G. are shown as a continuation of the financial statements of HSBC Bank Middle East Limited Oman branches with one adjustment to reflect the legal capital of OIB. This adjustment was reflected in a "merger reserve", the balance on which was adjusted against retained earnings as at 30 June 2012.

As per IFRS 3 negative goodwill of RO 1.23m arose from this acquisition and is recognised within other income for the six months ended 30 June 2012.

	<b>30 June 2012</b>
	<b>RO'000</b>
Total consideration transferred	<u><u>151,923</u></u>

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**5 Business combination (continued)**

The fair values of identifiable assets acquired and the liabilities assumed as at the acquisition date were as follows:

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

Transaction costs of OMR 0.86m have been expensed and are included in general and administrative expenses.

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**6 Interest income**

Interest bearing assets earned interest at an overall annualised rate of **2.29%** for the six months period ended 30 June 2012 (30 June 2011- 3.4%).

**7 Interest expense**

For the six month period ended 30 June 2012, the average overall annualised cost of funds was **0.44%** (30 June 2011 - 0.61%).

**8 Other operating income**

	<b>Six months period ended</b>	Six months period ended
	<b>30 June</b>	30 June
	<b>2012</b>	2011
	<b>RO'000</b>	RO'000
Loss on sale of property and equipment	-	(1)
Negative goodwill (note 5)	<b>1,238</b>	-
Other income	<b>174</b>	59
	<b>1,412</b>	58

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

	<b>Six months period ended</b>	Six months period ended
	<b>30 June</b>	30 June
	<b>2012</b>	2011
	<b>RO'000</b>	RO'000
Provided during the period - general	<b>(872)</b>	(540)
Provided during the period - specific	<b>(2,580)</b>	(1,762)
Provisions released / written back	<b>422</b>	1,853
Adjustments as a result of fair value unwind	<b>1,661</b>	-
Reserved interest released	<b>132</b>	159
Written-off loans recovered	<b>355</b>	329
	<b>(882)</b>	39



**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**10 Other operating expenses**

	<b>Six months period ended</b>	Six months period ended
	<b>30 June</b>	30 June
	<b>2012</b>	2011
	<b>RO'000</b>	RO'000
Employee compensation and benefits	<b>(6,297)</b>	(4,655)
General and administrative expenses	<b>(6,298)</b>	(4,775)
Depreciation and impairment of property, plant and equipment	<b>(328)</b>	(179)
	<b>(12,923)</b>	(9,609)

**11 Amortisation and impairment of intangible assets**

	<b>Six months period ended</b>	Six months period ended
	<b>30 June</b>	30 June
	<b>2012</b>	2011
	<b>RO'000</b>	RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposit	<b>(146)</b>	-
Customer relationships	<b>(44)</b>	-
	<b>(190)</b>	-

**12 Basic earnings per share**

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

	<b>30 June</b>	30 June	31 December
	<b>2012</b>	2011	2011
Weighted average number of shares in issue ('000)	<b>1,137,101</b>	968,053	980,153
Net profit for the period (RO'000)	<b>7,243</b>	6,877	15,528
Basic earnings per share – annualised (RO)	<b>0.013</b>	0.014	0.016

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**13 Loans and advances to customers**

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

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Overdrafts	<b>97,035</b>	16,316	14,341
Loans	<b>1,102,175</b>	460,043	433,586
Bills discounted / purchased	<b>29,263</b>	20,216	17,028
Gross loans and advances	<b>1,228,473</b>	496,575	464,955
Provision for loan impairment - specific	<b>(4,869)</b>	(3,899)	(3,445)
Provision for loan impairment - general	<b>(6,509)</b>	(6,179)	(5,644)
Reserved interest	<b>(2,516)</b>	(2,202)	(1,586)
Net loans and advances	<b>1,214,579</b>	484,295	454,280

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

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Overdrafts	<b>97,035</b>	16,316	14,341
Loans	<b>1,192,673</b>	460,043	433,586
Bills discounted / purchased	<b>29,263</b>	20,216	17,028
Gross loans and advances	<b>1,318,971</b>	496,575	464,955
Provision for loan impairment - specific	<b>(38,271)</b>	(3,899)	(3,445)
Provision for loan impairment - general	<b>(16,503)</b>	(6,179)	(5,644)
Reserved interest	<b>(49,618)</b>	(2,202)	(1,586)
Net loans and advances	<b>1,214,579</b>	484,295	454,280

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

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
0-5%	<b>675,645</b>	259,579	248,128
5-7%	<b>220,309</b>	142,056	127,860
7-10%	<b>355,003</b>	80,475	76,343
10-13%	<b>52,869</b>	4,516	2,723
more than 13%	<b>15,145</b>	9,949	9,901
	<b>1,318,971</b>	496,575	464,955

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**13 Loans and advances to customers (continued)**

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

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
0-6 months	<b>400,347</b>	289,543	207,711
6-12 months	<b>85,654</b>	21,231	26,551
1-3 years	<b>110,742</b>	57,702	75,962
3-5 years	<b>134,733</b>	47,550	62,448
More than 5 years	<b>483,103</b>	68,269	81,608
	<b>1,214,579</b>	484,295	454,280

**Concentration of loans and advances:**

Loans and advances to customers by industry sector

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
<b>Personal and consumer loans</b>	<b>435,849</b>	88,841	105,124
<b>Corporate and commercial</b>			
Import trade	<b>129,974</b>	103,267	104,803
Construction	<b>42,750</b>	13,872	17,894
Manufacturing	<b>160,008</b>	84,978	76,479
Wholesale and retail trade	<b>31,205</b>	20,414	26,272
Export trade	<b>9,868</b>	9,417	7,996
Electricity, gas, water, transportation and communication	<b>133,778</b>	61,077	5,320
Services	<b>136,401</b>	87,401	83,044
Mining and quarrying	<b>131,221</b>	8,039	18,510
Others	<b>60,074</b>	18,677	19,228
	<b>835,279</b>	407,142	359,546
<b>Financial institutions</b>	<b>47,843</b>	592	285
<b>Total gross loans and advances</b>	<b>1,318,971</b>	496,575	464,955
Provision for loan impairment - specific	<b>(38,271)</b>	(3,899)	(3,445)
Provision for loan impairment - general	<b>(16,503)</b>	(6,179)	(5,644)
Reserved interest	<b>(49,618)</b>	(2,202)	(1,586)
<b>Net loans and advances</b>	<b>1,214,579</b>	484,295	454,280
<b>Non -performing loans</b>	<b>101,789</b>	7,067	5,427

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**13 Loans and advances (continued)**

**Concentration of loans and advances (continued):**

Provision for loan impairment and reserved interest represent **86.34%** of gross non-performing loans and advances.

Non-performing loans includes Government soft loans, amounting to RO 2.77m, in which the principal is guaranteed and part of interest serviced by the Government of the Sultanate of Oman, are past due. Adequate provision for impairment is established for the portion of interest not serviced by the customers.

**Provision for loan impairment and reserved interest:**

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

	<b>Specific provision RO'000</b>	<b>General provision RO'000</b>	<b>Total provision RO'000</b>
<b>Balance at 1 January 2012</b>	<b>3,445</b>	<b>5,644</b>	<b>9,089</b>
Transfers as result of business combination	<b>33,402</b>	<b>9,995</b>	<b>43,397</b>
Currency translation effect on opening balance	<b>(2)</b>	<b>-</b>	<b>(2)</b>
Provided during the period	<b>2,580</b>	<b>872</b>	<b>3,452</b>
Released during the period:			
-Due to recoveries/releases	<b>(388)</b>	<b>-</b>	<b>(388)</b>
-Due to write back	<b>(26)</b>	<b>(8)</b>	<b>(34)</b>
Written off during the period	<b>(740)</b>	<b>-</b>	<b>(740)</b>
<b>Balance at 30 June 2012</b>	<b>38,271</b>	<b>16,503</b>	<b>54,774</b>

The movement on provision for loan impairment for the six months period ended 30 June 2011 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2011	4,980	5,639	10,619
Provided during the period	1,762	540	2,302
Due to recoveries / releases	(1,853)	-	(1,853)
Written off during the period	(990)	-	(990)
Balance at 30 June 2011	3,899	6,179	10,078

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

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000
Balance at the beginning of the period	<b>1,586</b>	1,956
Transfers as result of business combination	<b>47,102</b>	-
Reserved during the period	<b>2,239</b>	436
Released to the statement of comprehensive income in loan impairments - credit	<b>(132)</b>	(159)
Written off during the period	<b>(1,177)</b>	(31)
Balance at end of the period	<b>49,618</b>	2,202

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

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**14 Financial investments**

Financial investments details are provided as follows:

	<b>Fair value</b>	Fair value	Fair value	<b>Carrying</b>	Carrying	Carrying	<b>Cost</b>	Cost	Cost
	<b>30 June</b>	30 June	31 December	<b>value</b>	value	value	<b>30 June</b>	30 June	31 December
	<b>2012</b>	2011	2011	<b>2012</b>	2011	2011	<b>2012</b>	2011	2011
	<b>RO'000</b>	RO'000	RO'000	<b>RO'000</b>	RO'000	RO'000	<b>RO'000</b>	RO'000	RO'000
<b>Marketable securities – MSM</b>									
Finance	<b>1,934</b>	-	-	<b>1,934</b>	-	-	<b>1,911</b>	-	-
Insurance	<b>378</b>	-	-	<b>378</b>	-	-	<b>340</b>	-	-
Services	<b>381</b>	-	-	<b>381</b>	-	-	<b>361</b>	-	-
Industrial	<b>54</b>	-	-	<b>54</b>	-	-	<b>54</b>	-	-
Government bonds	<b>41,747</b>	24,445	29,727	<b>41,747</b>	24,445	29,727	<b>41,073</b>	24,211	29,327
Other bonds	<b>220</b>	-	-	<b>220</b>	-	-	<b>220</b>	-	-
	<b>44,714</b>	24,445	29,727	<b>44,714</b>	24,445	29,727	<b>43,959</b>	24,211	29,327
<b>Marketable securities – Foreign by Sector</b>									
Government securities	<b>2,224</b>	-	-	<b>2,224</b>	-	-	<b>2,180</b>	-	-
<b>Unquoted and other investments</b>									
Certificates of Deposits				<b>519,990</b>	220,004	275,011	<b>519,990</b>	220,004	275,011
Treasury Bills - overseas				<b>1,685</b>	-	-	<b>1,663</b>	-	-
Unquoted Omani shares				<b>1,010</b>	-	-	<b>1,010</b>	-	-
Investment fund units				<b>11,662</b>	-	-	<b>11,681</b>	-	-
Unquoted foreign shares				<b>2,583</b>	-	-	<b>2,417</b>	-	-
				<b>536,930</b>	220,004	275,011	<b>536,761</b>	220,004	275,011
<b>Total</b>				<b>583,868</b>	244,449	304,738	<b>582,900</b>	244,215	304,338

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**14 Investments (continued)**  
**Details of investments**

	Fair value 30 June 2012 RO'000	Carrying value 30 June 2012 RO'000	Cost 30 June 2012 RO'000
<b>MSM quoted securities</b>			
Government bonds	41,747	41,747	41,073
Others	2,967	2,967	2,886
	<u>44,714</u>	<u>44,714</u>	<u>43,959</u>
<b>Foreign listed securities</b>			
Government securities	2,224	2,224	2,180
<b>Total quoted securities</b>	<u><u>46,938</u></u>	<u><u>46,938</u></u>	<u><u>46,139</u></u>
<b>Unquoted securities</b>			
Oman (Shares and Units)		12,672	12,691
Certificates of Deposits		519,990	519,990
Treasury Bills – overseas		1,685	1,663
Others		2,583	2,417
<b>Total Unquoted securities</b>		<u>536,930</u>	<u>536,761</u>
<b>Total Investments</b>		<u><u>583,868</u></u>	<u><u>582,900</u></u>

**Details of classification of investments are given below:**

	30 June 2012 RO'000	30 June 2011 RO'000	31 December 2011 RO'000
Available-for-sale (AFS)	583,868	244,449	304,738
	<u><u>583,868</u></u>	<u><u>244,449</u></u>	<u><u>304,738</u></u>

**Details of AFS investments are as follows:**

	30 June 2012 RO'000	30 June 2011 RO'000	31 December 2011 RO'000
<b>Cost of:</b>			
Quoted - Foreign Government securities	2,180	-	-
Quoted - Equity and other securities-Oman	43,959	24,211	29,327
Unquoted investments	536,761	220,004	275,011
	<u>582,900</u>	<u>244,215</u>	<u>304,338</u>
<b>Revaluation gain (loss) of:</b>			
Quoted - Foreign Government securities	-	-	-
Quoted - Equity and other securities-Oman	968	234	400
Unquoted investments	-	-	-
	<u><u>583,868</u></u>	<u><u>244,449</u></u>	<u><u>304,738</u></u>

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**15 Other assets**

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Derivatives - positive mark to market	3,143	2,396	1,575
Prepayments and accrued income	1,634	894	651
Deferred tax asset	5,204	525	1,103
Acceptances	196,863	30,287	63,088
Others	4,571	539	454
	<b>211,415</b>	<b>34,641</b>	<b>66,871</b>

**16 Intangible assets**

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Customer relationships	3,691	-	-
Core deposit intangible	12,306	-	-
	<b>15,997</b>	<b>-</b>	<b>-</b>
Less: amortised	(190)	-	-
	<b>15,807</b>	<b>-</b>	<b>-</b>

**17 Property plant and equipment**

During the six months period ended an amount of RO 31.4m was included as a result of business combination as referred to in note 5. This includes net book value of Freehold land and building of RO 24.3m.

**18 Deposits**

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Deposits details are as follows:			
Current and Call	933,027	363,501	414,687
Savings	444,338	84,766	83,668
Time deposits	419,568	272,910	245,675
Others	9,419	3,799	3,720
	<b>1,806,352</b>	<b>724,976</b>	<b>747,750</b>

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**18 Deposits (continued)**

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

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
0-6 months	774,831	330,444	354,217
6-12 months	251,214	111,114	103,211
1-3 years	244,639	54,774	54,182
3-5 years	135,746	52,281	54,159
Over 5 years	399,922	176,363	181,981
	<b>1,806,352</b>	724,976	747,750

The interest rate bands of deposits are as follows:

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
0-2%	1,683,614	639,210	664,852
2-4%	117,898	78,955	82,348
4-6%	1,139	6,811	550
6-8%	92	-	-
8-10 %	2,457	-	-
more than 10%	1,152	-	-
	<b>1,806,352</b>	724,976	747,750

**19 Other liabilities**

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Derivatives - negative mark to market	3,779	2,384	1,560
Deferred tax liability	555	-	-
Retirement benefit liability	1,523	417	349
Acceptances	196,863	30,287	63,088
Tax liability	3,774	3,858	4,924
Accruals and deferred income	12,912	6,359	9,322
Others	6,516	3,834	3,302
	<b>225,922</b>	47,139	82,545



**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**20 Contingent liabilities, commitments and derivatives**

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Forward forex contracts – sales	<b>483,226</b>	87,225	48,635
Forward forex contracts – purchases	<b>489,515</b>	87,225	48,635
Currency Swaps	<b>134,750</b>	-	-
Options	<b>2,500</b>	38,500	2,586
Interest rate swaps	<b>130,457</b>	43,046	28,913
Undrawn unconditionally cancellable commitments	<b>482,437</b>	458,033	473,512
Undrawn unconditionally non-cancellable commitments	<b>18,572</b>	11,428	11,903
	<b>1,741,457</b>	725,457	614,184

As at 30 June 2012, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and it therefore does not consider it necessary to make any additional provisions in this regard.

**21 Basis of valuing financial assets and liabilities measured at fair value**

	<u>Valuation techniques</u>			Total RO'000
	Quoted market price Level 1 RO'000	Using observable inputs Level 2 RO'000	With significant unobservable inputs Level 3 RO'000	
<b>At 30 June 2012</b>				
<b>Assets</b>				
Derivatives	-	3,143	-	3,143
Financial investments: available-for-sale	5,330	577,528	1,010	583,868
<b>Liabilities</b>				
Derivatives	-	3,779	-	3,779
<b>At 30 June 2011</b>				
<b>Assets</b>				
Derivatives	-	2,396	-	2,396
Financial investments: available-for-sale	-	244,449	-	244,449
<b>Liabilities</b>				
Derivatives	-	2,384	-	2,384

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**22 Asset liability mismatch**

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

Maturities	30 June 2012			30 June 2011			31 December 2011		
	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	1,406,404	1,039,249	367,155	678,498	394,524	283,974	675,832	414,532	261,300
6-12 months	92,660	251,214	(158,554)	27,338	141,400	(114,062)	31,725	168,257	(136,532)
1-3 years	132,390	244,640	(112,250)	60,712	54,774	5,938	78,627	54,182	24,445
3-5 years	178,076	135,767	42,309	74,872	52,281	22,591	94,734	52,710	42,024
more than 5 years	556,680	695,340	(138,660)	76,389	274,830	(198,441)	89,210	280,447	(191,237)
	<b>2,366,210</b>	<b>2,366,210</b>	<b>-</b>	<b>917,809</b>	<b>917,809</b>	<b>-</b>	<b>970,128</b>	<b>970,128</b>	<b>-</b>

**23 Exposure to credit risk**

	Loans and advances			Due from banks			Financial Investments		
	30 June 2012	30 June 2011	31 December 2011	30 June 2012	30 June 2011	31 December 2011	30 June 2012	30 June 2011	31 December 2011
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Individually impaired - non performing	101,789	7,067	5,427	-	-	-	-	-	-
Provision for loan impairment - specific and reserved interest	(87,889)	(6,101)	(5,031)	-	-	-	-	-	-
Carrying amount of non-performing	13,900	966	396	-	-	-	-	-	-
Past due and not impaired	40,092	7,308	5,418	-	-	-	-	-	-
Neither past due nor impaired	1,177,090	482,200	454,110	178,677	81,542	101,380	583,868	244,449	304,738
Allowance for collective impairment	(16,503)	(6,179)	(5,644)	-	-	-	-	-	-
Total carrying amount	<b>1,214,579</b>	<b>484,295</b>	<b>454,280</b>	<b>178,677</b>	<b>81,542</b>	<b>101,380</b>	<b>583,868</b>	<b>244,449</b>	<b>304,738</b>

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**24 Share capital**

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (2011 – 968,052,611 shares of RO 0.100 each) against the authorised share capital of 7,500 million shares of RO 0.100 each.

Of the above share capital of the Bank ordinary shares of 1,020,159,523 was issued on 3 June 2012 to HSBC for merger with OIB

**Major Shareholder**

All those shareholders of the company who own 10% or more of the company's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	<b>30 June 2012</b>	30 June 2011	31 December 2011
	<b>Number of shares</b>	Number of shares	Number of shares
1 HSBC Bank Middle East Limited	<b>1,020,159,523</b>	-	-
2 H.E. Dr. Omar Bin Abdul Muneim Al Zawawi	-	97,483,598	97,483,598

**25 Reserves**

(a) Legal reserve

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

(b) Statutory reserve

Regulations issued on 30 September 2000 by the authority regulating the banking activities in India, in which certain branches operate, require the branches to appropriate 25% of their profits for the year to a statutory reserve, which is not distributable without the prior permission of the regulatory authority. An earlier regulation issued on 27 March 1989, required the branches in India to appropriate 20% of their profits to a statutory reserve until the year 2000. In this respect an amount of RO 285,000 has been transferred to statutory reserve during the six month period ended 30 June 2012 (2011 - RO 247,000).

(c) Merger reserve

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

(d) Available-for-sale fair value reserve

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

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

Holders of 10% or more of the company's shares may include companies, individuals, or families. Families are included if the shares of the family members total 10% or more of the company'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 company.

Related parties also includes key management personnel and HSBC Group and related entities. Details are provided separately above 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.

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

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

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

	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
<b>30 June 2012</b>					
Loans and advances	-	34	145	29,732	29,911
Current, deposit and other accounts	(41)	(103)	-	(52,384)	(52,528)
Letters of credit and guarantees	18	-	-	4,947	4,965
Provision for loans and advances	-	-	-	(730)	(730)
Due from banks	9,341	-	-	-	9,341
Due to banks	13,250	-	-	-	13,250
<b>For the period ended 30 June 2012</b>					
Interest income	-	-	-	-	-
Interest expense	(5)	-	-	(178)	(183)
Net fee income	35	-	-	28	63
Other operating income	-	-	-	3	3
Other operating expenses:	(3,036)	-	(707)	(66)	(3,809)
Advertisement and publicity	-	-	-	-	-
Insurance	-	-	-	(28)	(28)
Printing and stationery	-	-	-	(11)	(11)
Repairs and maintenance	-	-	-	(11)	(11)
Others	-	4	-	(16)	(12)
Purchase of property and equipment	-	-	-	22	22

Loans and advances amounting to RO 1.68m included above are secured by cash collaterals and bank guarantees.

	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
<b>30 June 2011</b>					
Loans and advances	-	-	-	-	-
Current, deposit and other accounts	-	-	-	-	-
Letters of credit and guarantees	-	-	-	-	-
Provision for loans and advances	-	-	-	-	-
Due from banks	5,883	-	-	-	5,883
Due to banks	(16,132)	-	-	-	(16,132)
<b>For the period ended 30 June 2011</b>					
Interest income	-	-	-	-	-
Interest expense	-	-	-	-	-
Net fee income	299	-	-	-	299
Other operating expenses	(2,844)	-	(744)	-	(3,588)

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**27 Operating segments**

The factors used to identify the bank's reporting segment are discussed in the financial statements for the year ended 31 December 2011.

**Geographical areas**

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

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

A geographical analysis of key financial data by location of primary assets as at 30 June 2011 is set out below:

	<b>Oman</b>	<b>Others</b>	<b>Adjustments</b>	<b>Total</b>
<b>30 June 2011</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Net operating income before loan impairment charges and other credit risk provisions	17,416	-	-	17,416
Loan impairment charges and other credit risk provisions	39	-	-	39
<b>Net operating income</b>	<b>17,455</b>	<b>-</b>	<b>-</b>	<b>17,455</b>
<b>Total Operating Expenses</b>	<b>(9,609)</b>	<b>-</b>	<b>-</b>	<b>(9,609)</b>
<b>Profit before tax</b>	<b>7,846</b>	<b>-</b>	<b>-</b>	<b>7,846</b>
<b>Tax expense</b>	<b>(969)</b>	<b>-</b>	<b>-</b>	<b>(969)</b>
<b>Profit for the period</b>	<b>6,877</b>	<b>-</b>	<b>-</b>	<b>6,877</b>
<b>Loans and advances to customers (net)</b>	<b>484,295</b>	<b>-</b>	<b>-</b>	<b>484,295</b>
<b>Total assets</b>	<b>917,809</b>	<b>-</b>	<b>-</b>	<b>917,809</b>
<b>Deposits from customers</b>	<b>724,976</b>	<b>-</b>	<b>-</b>	<b>724,976</b>
<b>Total liabilities</b>	<b>812,296</b>	<b>-</b>	<b>-</b>	<b>812,296</b>

**Business Line segment**

Information regarding products and services are discussed in note 4 to these unaudited condensed financial statements. The results of each reportable segment has not been presented as it is impracticable to do so.

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**  
**Notes to the Unaudited interim condensed financial statements for the six months period ended 30 June 2012**

**28 Capital adequacy ratio**

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

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
Tier I and tier II capital	<b>278,616</b>	103,599	118,675
Risk-weighted assets	<b>1,762,530</b>	670,367	688,134
Capital adequacy ratio %	<b>15.81%</b>	15.45%	17.25%

**29 Cash and cash equivalents**

	<b>30 June 2012 RO'000</b>	30 June 2011 RO'000	31 December 2011 RO'000
<i>Unaudited interim condensed balance sheet comprise:</i>			
Cash and balances with central banks	<b>128,516</b>	71,442	41,401
Due from Banks	<b>178,677</b>	81,542	101,380
Due to Banks	<b>(39,747)</b>	(40,181)	(25,699)
	<b>267,446</b>	112,803	117,082
Adjustment for items maturing after three months from date of acquisition and restricted balances	<b>(16,378)</b>	(500)	(500)
	<b>251,068</b>	112,303	116,582
<i>Cash and cash equivalent comprise:</i>			
Cash and balances with central banks	<b>112,138</b>	70,942	40,901
Due from Banks	<b>178,677</b>	81,542	101,380
Due to Banks	<b>(39,747)</b>	(40,181)	(25,699)
Total	<b>251,068</b>	112,303	116,582