



HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report

30 June 2014

HSBC 

Interim Condensed Financial Report - 30 June 2014

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Presentation of Information

This document comprises the Interim Condensed Financial Report – 30 June 2014 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 for the six months ended 30 June 2014

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's second quarter financial results for 2014.

We have built on the positive momentum seen in the first quarter by remaining focused on our strategic objectives of growing revenues, streamlining processes and procedures and implementing the highest global standards. I am particularly pleased at the growth in value of our loans and advances to our customers since the date of our AGM in March.

Performance Summary

Our first half performance shows a 38.7% decrease in net profit of RO5.7m compared to RO9.3m for the same period in 2013, which had benefitted from significant recoveries and a release of a portion of the general provision.

Net operating income before loan impairment charges increased by 2.7% to RO34.1m compared to RO33.2m for the same period in 2013 due to higher dividend and other operating incomes. Net interest income remained flat for the period ended 30 June 2014 at RO23.1m, compared to the same period in 2013. Total other operating income increased 8.9% to RO11.0m compared to RO10.1m for the same period in 2013.

A net charge of RO1.2m has been reported for loan impairment charges for the period against a net recovery of RO3.2m for the same period in 2013, which reflected recoveries released last year from corporate clients of RO2.0m and as a result of a general provision release of RO1.1m following a reduction in corporate loans and advances in 2013.

Operating expenses increased by 4.3% to RO26.5m compared to RO25.4m for the same period in 2013 due to a one-off expense reversal in the previous year.

Loans and advances, net of provisions and reserved interest as at 30 June 2014, increased by 4.9% to RO1,136.6m due to an increase in corporate assets. Customer deposits decreased by 8.7% to RO1,960.1m due to a reduction in corporate deposits.

HBON's Capital Adequacy ratio stood at 18.4% as at 30 June 2014 compared to 18.6% at 30 June 2013, representing a continuing strong capital base for future growth.

Delivering the best customer experience

In Retail Banking & Wealth Management (RBWM), we continued to see strong sales activity as a result of our more focused customer-centric way of serving customers launched earlier in the year. This focus is enabling staff to have more valuable conversations with customers about their financial needs.

We continued to invest in the business, with more branches refurbished this quarter (in Firq, Madinat Al Nahdha, Saham, Sleef, Salalah and Muaskar Al Murtafa). We launched an Arabic Mobile Banking application, building on our comprehensive digital banking proposition, and continued to invest in campaigns in our key customer segments of Advance and Premier.

In Commercial Banking, we have seen good growth in the balance sheet with a noticeable increase in loans to customers, with significant new deals with key clients such as ORPIC (which we led), demonstrating the strength of our local capability when coupled with our international connectivity.

Our operations in India

Prior to the 2012 merger of HSBC Bank Middle East's Oman operations with OIB, a decision was taken by the former OIB Board of Directors and unanimously approved by the OIB shareholders at an Extraordinary General Meeting in May 2012, to dispose of the bank's two branches in India, subject to regulatory approvals. In April, we confirmed that HSBC Bank Oman had entered into an agreement to sell its banking business in India to Doha Bank QSC. The transaction, which is subject to shareholders' and regulatory approvals, is expected to complete during the last quarter of 2014.

Investing in our people and the community

We were delighted to appoint Abdul Qader Al-Sumali and Sulaiman Al-Lamki into senior executive positions, demonstrating our commitment to identifying and developing Omani talent. In addition, one of our new graduates has been accepted onto the HSBC Group Graduate Development Programme.

As a platinum sponsor, we were proud to support the CBFS Annual Open Day and Careers Fair. We continued to invest in staff training, including initiatives as part of our flagship CMB Academy, as well as customer experience and performance development programmes.

We signed a partnership with the Oman Water Society to renovate Al Maidan Falaj in Wilayat Nakhal. In addition, another Kids Read event took place at Daghmar School, books were distributed to schools around Oman under a "Books for Brains" initiative and over 2,000 food hampers were delivered to low income families in the lead up to the Holy Month of Ramadan. In the first half of 2014, over 150 staff spent time supporting community initiatives, equating to over 700 hours of volunteer help.

Conclusion

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

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

David Eldon
Chairman



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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 2014, and the related unaudited condensed statements of profit or loss and other comprehensive income for the three months and six months periods then ended and, changes in equity and cash flows for the six months period then ended, and other explanatory notes set out on pages 6 to 28 ("the interim financial information").

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.

21 July 2014



KPMG

Summary of unaudited results for the six months period ended 30 June 2014

	30 June 2014	30 June 2013	Change (%)
	RO'000	RO'000	
Loans and advances net of provisions and reserved interest	1,136,614	1,083,863	5%
Customer deposits	1,960,111	2,146,915	(9%)
Net assets	303,931	303,453	0.2%
* Net assets per share	0.152	0.152	-
	Six months period ended	Six months period ended	Change (%)
	30 June 2014	30 June 2013	
	RO'000	RO'000	
Net interest income	23,148	23,127	0.1%
Net profit for the period	5,668	9,279	(39%)
** Earnings per share (annualised)	0.006	0.009	(33%)
*** Capital adequacy ratio (CAR)	18.43%	18.59%	(0.9)%

* *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 net profit after tax attributable to ordinary shareholders for the period ended 30 June by the average number of ordinary shares in issue for the period.*

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

Unaudited interim condensed statement of profit or loss and other comprehensive income for the six months period ended 30 June 2014

	Notes	Quarter ended 30 June 2014 RO' 000	Quarter ended 30 June 2013 RO' 000	Six months ended 30 June 2014 RO' 000	Six months ended 30 June 2013 RO' 000
Interest income	6	13,555	14,092	26,664	28,891
Interest expense	7	(1,907)	(2,574)	(3,516)	(5,764)
Net interest income		11,648	11,518	23,148	23,127
Net fee income		3,736	2,924	6,162	5,924
Net exchange income		1,791	2,095	3,433	3,911
Dividend income		291	87	828	164
Other operating income	8	533	27	548	51
Net operating income before loan impairment charges and other credit risk provisions		17,999	16,651	34,119	33,177
Loan impairment (charge) and other credit risk provisions - net of recoveries	9	(1,004)	634	(1,235)	3,154
Net operating income		16,995	17,285	32,884	36,331
Operating expenses	10	(13,639)	(12,573)	(25,330)	(24,278)
Amortisation and impairment of intangible assets	11	(572)	(572)	(1,143)	(1,143)
Total operating expenses		(14,211)	(13,145)	(26,473)	(25,421)
Profit before tax		2,784	4,140	6,411	10,910
Tax expense		(203)	(603)	(743)	(1,631)
Profit for the period		2,581	3,537	5,668	9,279
Other comprehensive income/(expense) Items that will be reclassified subsequently to profit or loss when specific conditions are met					
- Fair value (loss)/gain on available-for-sale Investments		(279)	1,456	(3)	2,739
- Income taxes on fair value loss/(gain) on available-for-sale investments		10	(125)	6	(224)
- Effect of currency translation		(15)	(645)	17	(478)
		(284)	686	20	2,037
Total comprehensive income for the period		2,297	4,223	5,688	11,316
Earnings per share - basic	12	0.005	0.007	0.006	0.009

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

Unaudited interim condensed statement of financial position as at 30 June 2014

		At 30 June 2014	At 30 June 2013	Audited At 31 December 2013
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		179,695	165,464	117,629
Due from banks		266,842	228,307	194,311
Loans and advances to customers - net	13	1,136,614	1,083,863	980,472
Financial investments	14	700,687	1,025,327	823,311
Other assets	15	53,987	54,910	61,718
Intangible assets	16	11,236	13,521	12,379
Property and equipment	17	30,915	31,565	31,068
Total assets		2,379,976	2,602,957	2,220,888
Liabilities and equity				
Liabilities				
Due to banks		51,172	80,592	41,830
Deposits from customers	18	1,960,111	2,146,915	1,792,703
Other liabilities	19	64,762	71,997	80,508
Total liabilities		2,076,045	2,299,504	1,915,041
Equity				
Share capital	24	200,031	200,031	200,031
Legal reserve	25(a)	33,759	32,673	33,759
Statutory reserve	25(b)	1,528	1,547	1,486
Available-for-sale fair value reserve	25(c)	5,069	4,150	5,066
Foreign exchange reserve	25(d)	(254)	-	-
Retained profits		63,798	65,052	65,505
Total equity		303,931	303,453	305,847
Total equity and liabilities		2,379,976	2,602,957	2,220,888
Net assets per share - RO		0.152	0.152	0.153
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		83,332	121,688	93,046
- Guarantees		324,603	286,076	273,706
- Others	20	1,206,945	1,087,890	1,080,739
		1,614,880	1,495,654	1,447,491

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

The interim condensed financial statements were authorised for issue on 21 July 2014 in accordance with the resolution of the Board of Directors.

David Eldon
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the six months period ended 30 June 2014

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Available-for- sale fair value reserve RO'000	Foreign exchange reserve RO'000	Retained profits RO'000	Total RO'000
At 1 January 2013	200,031	32,673	1,236	1,635	-	58,562	294,137
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	9,279	9,279
Other comprehensive income / (expense) for the period							
Effect of currency translation	-	-	(92)	-	-	(386)	(478)
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	2,515	-	-	2,515
Total other comprehensive income for the period	-	-	(92)	2,515	-	(386)	2,037
Total comprehensive income for the period	-	-	(92)	2,515	-	8,893	11,316
Transfer to statutory reserve	-	-	403	-	-	(403)	-
	-	-	311	2,515	-	8,490	11,316
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2012	-	-	-	-	-	(2,000)	(2,000)
At 30 June 2013	200,031	32,673	1,547	4,150	-	65,052	303,453
At 1 January 2014	200,031	33,759	1,486	5,066	-	65,505	305,847
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	5,668	5,668
Other comprehensive income / (expenses) for the period							
Effect of currency translation	-	-	42	-	(25)	-	17
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	3	-	-	3
Total other comprehensive income for the period	-	-	42	3	(25)	-	20
Total comprehensive income for the period	-	-	42	3	(25)	5,668	5,688
Transfer from retained profits	-	-	-	-	(229)	229	-
	-	-	-	-	(254)	5,897	5,688
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2013	-	-	-	-	-	(7,604)	(7,604)
At 30 June 2014	200,031	33,759	1,528	5,069	(254)	63,798	303,931

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

Unaudited interim condensed statement of cash flows for the six months period ended 30 June 2014

	<i>Note</i>	Six months ended 30 June 2014 RO' 000	Six months ended 30 June 2013 RO' 000
Cash flows from operating activities			
Profit before tax		6,411	10,910
Adjustments for:			
– non-cash items included in profit before tax		2,982	(684)
– change in operating assets		(149,646)	247,401
– change in operating liabilities		151,408	144,773
– tax paid		(218)	-
Net cash generated from operating activities		10,937	402,400
Cash flows from investing activities			
Purchase of financial investments		(3,842,972)	(1,167,704)
Proceeds from maturity of financial investments		3,965,593	825,564
Purchase of property and equipment	17	(1,084)	(3,082)
Proceeds from sale of property and equipment		450	-
Effect of currency translation		(65)	(227)
Net cash generated from / (used in) investing activities		121,922	(345,449)
Cash flows from financing activities			
Dividends paid		(7,604)	(2,000)
Net cash used in financing activities		(7,604)	(2,000)
Net change in cash and cash equivalents		125,255	54,951
Cash and cash equivalents at the beginning of the period		254,224	242,343
Cash and cash equivalents at the end of the period	29	379,479	297,294

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

1 Legal status and activities

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

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

2 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

The audited financial statements of the Bank as at and for the year ended 31 December 2013 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, the disclosure requirements of CMA and the applicable regulations of the CBO.

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

Standards adopted during the period ended 30 June 2014:

On 1 January 2014, the Bank adopted 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 have been applied retrospectively and have not had a material effect on the Bank's financial statements.

During the period ended 30 June 2014, the Bank also adopted interpretations and amendments to standards which have 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.

Notes on the interim condensed financial statements (unaudited)

2 Basis of preparation (continued)

(d) Use of estimates and assumptions

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

(e) Future accounting developments

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is continuing to work on projects on insurance and lease accounting which will represent significant changes to accounting requirements in the future.

Amendments issued by the IASB

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Bank is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these interim condensed financial statements.

In November 2009, the IASB issued IFRS 9 'Financial Instruments' which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement.' IFRS 9 classification and measurement requirements are to be applied retrospectively but prior periods need not be restated.

The second phase in the IASB's project to replace IAS 39 will address the impairment of financial assets. It is proposed to replace the 'incurred loss' approach to the impairment of financial assets carried at amortised cost in IAS 39 with an expected credit loss approach, and require that the expected credit loss approach be applied to other categories of financial instrument, including loan commitments and financial guarantees. The final requirements for impairment of financial assets are expected to be published in 2014.

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be considered separately. In November 2013, the IASB issued amendments to IFRS 9 in respect of the general hedge accounting requirements, transition and effective date. As a result of these amendments, it is confirmed that all phases of IFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. The IASB has tentatively decided that the effective date is 1 January 2018.

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

3 Accounting policies

The accounting policies applied by the Bank in these interim condensed financial statements are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2013, except for the fair value hedge accounting policy which is defined below:

Hedge accounting

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the statement of profit or loss, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to the statement of profit or loss based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is released to the statement of profit or loss immediately.

4 Products and services

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

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

5 Business combination

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

Notes on the interim condensed financial statements (unaudited)

6 Interest income

Interest bearing assets earned interest at an overall annualized rate of 2.60% for the six months period ended 30 June 2014 (30 June 2013 – 2.64 %).

7 Interest expense

For the six months period ended 30 June 2014, the average overall annualised cost of funds was 0.37% (30 June 2013 – 0.56%).

8 Other operating income

	Six months period ended 30 June 2014 RO'000	Six months period ended 30 June 2013 RO'000
Gain on sale of property	444	-
Gain on sale of syndicated loans	17	30
Other income	87	21
	548	51

9 Loan impairment (charge) and other credit risk provisions - net of recoveries

	Six months period ended 30 June 2014 RO'000	Six months period ended 30 June 2013 RO'000
Provided during the period – general (note 13)	(1,344)	-
Provided during the period – specific (note 13)	(2,706)	(2,668)
Provisions released (note 13)	1,354	4,258
Adjustments as a result of fair value unwind	115	115
Reserved interest released (note 13)	305	416
Written-off loans recovered	1,110	1,080
Bad debts directly written off to statement of profit or loss	(69)	(47)
	(1,235)	3,154

10 Operating expenses

	Six months period ended 30 June 2014 RO'000	Six months period ended 30 June 2013 RO'000
Employee compensation and benefits	(11,939)	(9,761)
General and administrative expenses*	(12,343)	(13,190)
Depreciation of property and equipment	(1,048)	(1,327)
	(25,330)	(24,278)

*General and administrative expenses for the current quarter include the RO 0.9m of “Mandoos Prize” draw expenses which was previously reported as interest expense until March 2013 (RO 0.6m).

Notes on the interim condensed financial statements (unaudited)

11 Amortisation and impairment of intangible assets

	Six months period ended 30 June 2014 RO'000	Six months period ended 30 June 2013 RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposits	(880)	(880)
Customer relationships	(263)	(263)
	(1,143)	(1,143)

12 Earnings per share basic

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

	Six months period ended 30 June 2014	Six months period ended 30 June 2013	For the year ended 31 December 2013
Weighted average number of shares in issue ('000)	2,000,313	2,000,313	2,000,313
Net profit for the period (RO'000)	5,668	9,279	10,863
Earnings per share basic – annualised (RO)	0.006	0.009	0.005

13 Loans and advances to customers - net

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

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
Overdrafts	86,590	89,564	87,992
Loans	1,054,914	987,085	898,534
Bills discounted / purchased	29,585	33,315	24,302
Gross loans and advances	1,171,089	1,109,964	1,010,828
Provision for loan impairment - specific	(13,494)	(12,534)	(14,072)
Provision for loan impairment - general	(5,592)	(5,165)	(4,246)
Reserved interest	(15,389)	(8,402)	(12,038)
Net loans and advances	1,136,614	1,083,863	980,472

Notes on the interim condensed financial statements (unaudited)

13 Loans and advances to customers (continued)

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

	30 June	30 June	31 December
	2014	2013	2013
	RO'000	RO'000	RO'000
Overdrafts	86,590	89,564	87,992
Loans	1,125,561	1,057,732	969,181
Bills discounted / purchased	29,585	33,315	24,302
Gross loans and advances	1,241,736	1,180,611	1,081,475
Provision for loan impairment - specific	(36,471)	(35,511)	(37,049)
Provision for loan impairment - general	(15,583)	(15,156)	(14,237)
Reserved interest	(53,068)	(46,081)	(49,717)
Net loans and advances	1,136,614	1,083,863	980,472

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

	30 June	30 June	31 December
	2014	2013	2013
	RO'000	RO'000	RO'000
0-5%	629,968	570,568	480,525
5-7%	349,734	265,394	292,711
7-10%	203,116	280,410	248,282
10-13%	45,290	47,152	46,495
more than 13%	13,628	17,087	13,462
	1,241,736	1,180,611	1,081,475

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

	30 June	30 June	31 December
	2014	2013	2013
	RO'000	RO'000	RO'000
0-6 months	417,375	263,819	268,829
6-12 months	26,269	79,641	45,797
1-3 years	84,682	87,892	51,233
3-5 years	149,332	222,170	190,750
More than 5 years	458,956	430,341	423,863
	1,136,614	1,083,863	980,472

Notes on the interim condensed financial statements (unaudited)

13 Loans and advances to customers (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
Personal and consumer loans	442,416	420,570	437,010
Corporate and commercial			
Import trade	192,457	142,765	100,554
Construction	67,485	62,542	45,690
Manufacturing	160,891	232,791	189,221
Wholesale and retail trade	42,815	22,236	33,847
Export trade	9,817	6,172	11,622
Electricity, gas, water, transportation and communication	71,857	85,234	58,683
Services	196,036	128,281	143,502
Mining and quarrying	28,053	31,124	29,306
Others	28,440	42,696	32,040
	797,851	753,841	644,465
Financial institutions	1,469	6,200	-
Total gross loans and advances	1,241,736	1,180,611	1,081,475
Provision for loan impairment - specific	(36,471)	(35,511)	(37,049)
Provision for loan impairment - general	(15,583)	(15,156)	(14,237)
Reserved interest	(53,068)	(46,081)	(49,717)
Net loans and advances	1,136,614	1,083,863	980,472
Non performing loans	98,024	90,245	94,668

Specific provision for loan impairment and reserved interest represents 91.3% (30 June 2013 – 90.4%) of gross non-performing loans and advances.

Notes on the interim condensed financial statements (unaudited)

13 Loans and advances to customers (continued)

Provision for loan impairment and reserved interest

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

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2014	37,049	14,237	51,286
Currency translation effect on opening balance	50	2	52
Provided during the period (note 9)	2,706	1,344	4,050
Provisions released (note 9)	(1,354)	-	(1,354)
Written off during the period	(1,980)	-	(1,980)
Balance at 30 June 2014	36,471	15,583	52,054

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

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

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

	30 June 2014 RO'000	30 June 2013 RO'000
Balance at the beginning of the period	49,717	45,085
Currency translation effect on opening balance	7	(2)
Reserved during the period	5,505	5,443
Released to the statement of profit or loss in loan impairment - credit (note 9)	(305)	(416)
Written off during the period	(1,856)	(4,029)
Balance at end of the period	53,068	46,081

The estimated fair value of loans and advances is not materially different from the carrying value of loans and advances.

14 Financial investments

Financial investments details are provided as follows:

	Fair value 30 June 2014 RO'000	Fair value 30 June 2013 RO'000	Fair value 31 December 2013 RO'000	Carrying value 30 June 2014 RO'000	Carrying value 30 June 2013 RO'000	Carrying value 31 December 2013 RO'000	Cost 30 June 2014 RO'000	Cost 30 June 2013 RO'000	Cost 31 December 2013 RO'000
Marketable securities – MSM									
Finance	2,277	2,319	2,245	2,277	2,319	2,245	1,911	1,911	1,911
Insurance	352	377	355	352	377	355	340	340	340
Services	428	389	415	428	389	415	361	361	361
Industrial	41	42	42	41	42	42	54	54	54
Government bonds	68,086	51,440	68,086	68,086	51,440	68,086	67,123	50,190	67,449
	71,184	54,567	71,143	71,184	54,567	71,143	69,789	52,856	70,115
Marketable securities – Foreign by Sector									
Government securities	9,984	2,610	2,271	9,984	2,610	2,271	9,984	2,610	2,276
Foreign shares	4,340	3,772	4,631	4,340	3,772	4,631	2,407	2,407	2,407
	14,324	6,382	6,902	14,324	6,382	6,902	12,391	5,017	4,683
Unquoted and other investments									
Certificates of Deposits				600,037	950,002	730,039	600,038	950,000	730,039
Unquoted Omani shares				1,010	1,010	1,010	1,010	1,010	1,010
Investment fund units				14,132	13,366	14,217	11,717	11,717	11,717
				615,179	964,378	745,266	612,765	962,727	742,766
Total				700,687	1,025,327	823,311	694,945	1,020,600	817,564

Notes on the interim condensed financial statements (unaudited)

14 Financial investments (continued)

Details of AFS investments are as follows:	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
Cost of:			
Quoted - Foreign Government securities	9,984	2,610	2,276
Quoted - Equity investments	72,196	55,263	72,522
Unquoted investments and other securities	612,765	962,727	742,766
	694,945	1,020,600	817,564
Revaluation gain of:			
Quoted - Equity and other securities	5,742	4,727	5,747
	700,687	1,025,327	823,311

15 Other assets

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
Derivatives - positive mark to market	1,169	970	1,224
Prepayments and accrued income	1,673	1,510	1,507
Deferred tax asset	3,705	4,016	3,959
Acceptances	42,457	42,076	51,986
Others	4,983	6,338	3,042
	53,987	54,910	61,718

16 Intangible assets

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 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	(4,761)	(2,476)	(3,618)
	11,236	13,521	12,379

Notes on the interim condensed financial statements (unaudited)

17 Property and equipment

RO 1.1m of property and equipment were added during the period (June 2013: RO 3.1m).

18 Deposits from customers

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
Deposits details are as follows:			
Current and call	1,178,391	1,364,948	1,123,324
Savings	463,701	427,463	430,565
Time deposits	313,752	348,195	232,754
Others	4,267	6,309	6,060
	1,960,111	2,146,915	1,792,703

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

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
0-6 months	786,145	1,019,464	782,837
6-12 months	296,134	360,191	288,011
1-3 years	128,114	136,618	140,970
3-5 years	308,104	132,570	137,984
Over 5 years	441,614	498,072	442,901
	1,960,111	2,146,915	1,792,703

The interest rate bands of deposits are as follows:

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
0-2%	1,761,688	2,035,234	1,768,355
2-4%	195,442	107,304	21,296
4-6%	7	566	39
6-8%	41	349	206
8-10 %	2,933	3,433	2,807
more than 10%	-	29	-
	1,960,111	2,146,915	1,792,703

Notes on the interim condensed financial statements (unaudited)

19 Other liabilities

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
Derivatives - negative mark to market	658	2,098	1,563
Deferred tax liability	1,253	948	1,237
Retirement benefit liability	596	764	603
Acceptances	42,457	42,076	51,986
Tax liability	4,426	3,556	4,155
Accruals and deferred income	1,990	1,869	1,422
Obligation under finance lease	1,095	1,202	1,031
Others	12,287	19,484	18,511
	64,762	71,997	80,508

20 Contingent liabilities, commitments and derivatives

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
Forward forex contracts – sales	170,104	108,422	117,599
Forward forex contracts – purchases	171,833	110,150	119,423
Currency swaps	73,575	116,816	39,377
Interest rate swaps	95,557	20,261	18,557
Undrawn unconditionally cancellable commitments	633,855	703,832	747,239
Undrawn unconditionally non-cancellable commitments	62,021	28,409	38,544
	1,206,945	1,087,890	1,080,739

As at 30 June 2014, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore they do not consider it necessary to make any additional provisions in this regard.

21 Basis of valuation for 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	Financial instruments carried at cost RO'000	
At 30 June 2014				
Assets				
Derivatives	-	1,169	-	1,169
Financial investments: available-for-sale	17,356	682,321	1,010	700,687
Liabilities				
Derivatives	-	658	-	658
At 30 June 2013				
Assets				
Derivatives	-	970	-	970
Financial investments: available-for-sale	9,442	1,014,875	1,010	1,025,327
Liabilities				
Derivatives	-	2,098	-	2,098

Investments carried at cost and derivatives

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

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

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

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

Notes on the interim condensed financial statements (unaudited)

22 Asset liability mismatch

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

Maturities	30 June 2014			30 June 2013			31 December 2013		
	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	1,476,375	901,259	575,116	1,621,454	1,172,190	449,264	1,324,867	905,305	419,562
6-12 months	43,206	303,209	(260,003)	100,448	370,003	(269,555)	80,520	299,796	(219,276)
1-3 years	108,336	128,137	(19,801)	124,000	136,619	(12,619)	73,404	140,993	(67,589)
3-5 years	197,950	308,104	(110,154)	256,162	132,570	123,592	228,493	137,984	90,509
more than 5 years	554,109	739,267	(185,158)	500,893	791,575	(290,682)	513,604	736,810	(223,206)
	2,379,976	2,379,976	-	2,602,957	2,602,957	-	2,220,888	2,220,888	-

23 Exposure to credit risk

	Loans and advances (As per CBO)			Due from banks			Financial investments		
	30 June 2014	30 June 2013	31 December 2013	30 June 2014	30 June 2013	31 December 2013	30 June 2014	30 June 2013	31 December 2013
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Individually impaired - non performing	98,024	90,245	94,668	-	-	-	-	-	-
Provision for loan impairment specific and reserved interest	(89,539)	(81,592)	(86,766)	-	-	-	-	-	-
Carrying amount of non-performing	8,485	8,653	7,902	-	-	-	-	-	-
Past due and not impaired	12,392	23,481	25,751	-	-	-	-	-	-
Neither past due nor impaired	1,131,320	1,066,885	961,056	266,842	228,307	194,311	700,687	1,025,327	823,311
General provision	(15,583)	(15,156)	(14,237)	-	-	-	-	-	-
Total carrying amount	1,136,614	1,083,863	980,472	266,842	228,307	194,311	700,687	1,025,327	823,311

Notes on the interim condensed financial statements (unaudited)

24 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (30 June 2013 – 2,000,312,790 shares of RO 0.100 each) against the authorised share capital of 7,500 million shares of RO 0.100 each (30 June 2013 – 7,500 million of shares of RO 0.100 each)

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

Major Shareholder

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

	30 June 2014 Number of shares	30 June 2013 Number of shares	31 December 2013 Number of shares
HSBC Bank Middle East Limited	1,020,159,523	1,020,159,523	1,020,159,523

25 Reserves

(a) Legal reserve

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

(b) Statutory reserve

Regulations issued on 30 September 2000 by the authority regulating the banking activities in India, in which certain branches operate, require the branches to appropriate 25% of their profits for the year to a statutory reserve, which is not distributable without the prior permission of the regulatory authority. An earlier regulation issued on 27 March 1989, required the branches in India to appropriate 20% of their profits to a statutory reserve until the year 2000.

(c) Available-for-sale fair value reserve

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

(d) Foreign exchange reserve

Foreign exchange reserve represents exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, recognised in other comprehensive income. Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in other comprehensive income.

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

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

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

Notes on the interim condensed financial statements (unaudited)

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

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

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

	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
30 June 2013	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	7	-	18,878	18,885
Current, deposit and other accounts	-	83	-	34,111	34,194
Letters of credit and guarantees	-	-	-	7,988	7,988
Due from banks	46,688	-	-	-	46,688
Due to banks	35,704	-	-	-	35,704
For the period ended 30 June 2013					
Net fee income	157	-	-	-	157
Other operating expenses	(5,657)	(3)	(923)	(122)	(6,705)
Purchase of property and equipment	-	-	-	80	80

Related party loans and advances bear interest at rates between 1.5% p.a. and 6.5% p.a. Related party deposits bear interest at rates between 0.25% p.a. and 1.25% p.a.

Notes on the interim condensed financial statements (unaudited)

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 2013.

Geographical areas

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

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

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

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

Business Line segment

Information regarding products and services are discussed in note 4 to these unaudited condensed financial statements. The results of each reportable segment have been presented in the financial statements as of 31 December 2013.

Notes on the interim condensed financial statements (unaudited)

28 Capital adequacy ratio

Capital management is guided by the local regulator through CBO 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 in excess of 12% excluding capital conservation buffers for 2014 (2013: 12%) in accordance with CBO stipulated guidelines.

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
CET 1/Tier 1 capital	276,716	271,281	276,716
Tier 2 capital (T2)	16,572	16,739	16,572
Total regulatory capital	293,288	288,020	293,288
Risk-weighted assets	1,591,473	1,549,395	1,452,846
CET 1 / Tier 1 capital ratio	17.39%	17.51%	19.05%
Total capital ratio	18.43%	18.59%	20.19%

29 Cash and cash equivalents

	30 June 2014 RO'000	30 June 2013 RO'000	31 December 2013 RO'000
<i>Unaudited interim condensed statement of financial position comprises:</i>			
Cash and balances with central banks	179,695	165,464	117,629
Due from banks	266,842	228,307	194,311
Due to banks	(51,172)	(80,592)	(41,830)
	395,365	313,179	270,110
Adjustment for items maturing after six months from date of acquisition and restricted balances	(15,886)	(15,885)	(15,886)
	379,479	297,294	254,224
<i>Cash and cash equivalent comprise:</i>			
Cash and balances with central banks	163,809	149,579	101,743
Due from banks	266,842	228,307	194,311
Due to banks	(51,172)	(80,592)	(41,830)
Total	379,479	297,294	254,224

30 Comparative balances

Certain corresponding figures for 2013 have been reclassified in order to conform to the presentation for the current year.