



HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report

31 March 2015

HSBC 

Interim Condensed Financial Report – 31 March 2015

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Presentation of information

This document comprises the Interim Condensed Financial Report – 31 March 2015 for HSBC Bank Oman S.A.O.G. ('HBON') ('the Bank'). It contains Unaudited Interim Condensed Financial Statements, together with the Board of Directors Report, the Auditor's review report and the Summary of Unaudited Results.

Board of Directors' Report for the three months ended 31 March 2015

Dear Shareholders,

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

We have seen a strong start to the year with solid performances in both the retail and corporate sectors, with net profit showing a 22.6% increase over the first quarter of 2014.

We remain focused on our strategic objectives of growing revenue, streamlining our processes and procedures and implementing the highest global standards within a framework of delivering excellence in customer service at all times.

Performance Summary

Our first quarter performance shows a 22.6% increase in net profit of RO3.8m compared to RO3.1m for the same period in 2014, due to an increase in net operating income before loan impairment charges.

Net operating income before loan impairment charges increased by 15.5% to RO18.6m compared to RO16.1m for the same period last year due to higher net interest income, net fee income and other operating income.

Net interest income increased by 5.2% to RO12.1m for the period ended 31 March 2015, up from RO11.5m for the same period in 2014, due to an increase in corporate loans and advances. Net fee income increased by 37.5% to RO3.3m in comparison to RO2.4m for the period ended 31 March 2014 due to higher commitment and facility fees from corporate customers. Other operating income has been reported of RO1.5m for the period ended 31 March 2015 compared to RO0.02m for the same period in 2014 due to booking a gain on sale of HBON's India operations of RO0.8m (net of tax) and a gain on sale of investments of RO0.7m.

A net charge of RO0.8m has been reported for loan impairment charges mainly from retail specific provision of RO0.6m and a corporate general provision charge of RO0.6m from an increase in corporate loans and advances, partly offset by a recovery of RO0.5m from corporate customers, compared to a net charge of RO0.2m for the same period in 2014.

Operating expenses increased by 8.1% to R13.3m compared to RO12.3m for the same period in 2014 due to the combined effect of one off expense reversals in the prior year and current year increase of operating expenses.

Loans and advances net of provisions and reserved interest as at 31 March 2015 increased by 20.5% to RO1,226.0m compared to RO1,017.1m as at 31 March 2014 due to an increase in corporate loans and advances. Customer deposits marginally decreased by 0.1% to RO1,945.4m compared to RO1,948.1m as at 31 March 2014.

HBON's Capital Adequacy ratio stood at 17.8% as at 31 March 2015 compared to 19.8% as at 31 March 2014, representing a continuing strong capital base for future growth.

Delivering the best customer experience

In Retail Banking and Wealth Management we began the year on a positive note with the launch of a multi-product and multi-proposition campaign "The Big Start". In addition to highlighting the benefits of our personal lending and cards product ranges, the campaign continued to drive good acquisition levels in our key customer segments of Premier and Advance. In January, we also announced the winners of the RO1 million Mandoos Grand Prize draw and launched the 2015 Mandoos prize scheme.

Building on our comments at the recent Annual General Meeting, we continued to enhance our comprehensive digital banking proposition and released an updated version of our Mobile Banking application, as well as extended our fleet of ATMs. We also launched a targeted campaign across some of our branches – "Digital Week" - to spread awareness of the Bank's extensive digital banking services.

In Commercial Banking, we continued to enhance our local capabilities leveraging our HSBC regional and global connectivity. Reflecting our ongoing commitment to SMEs in Oman, we conducted the second of our quarterly "Growth Series" events, on the theme of "Get more out of your working capital". We continue to support the international and internationally aspirant SMEs in Oman through the International Growth Fund launched last year.

Our Operations in India

We were pleased to confirm that on 31 March 2015, HSBC Bank Oman completed the sale of its two branches in India to Doha Bank. The financial impact of this sale had no material impact on the overall performance of the Bank.

Investing in our people and the community

Our commitment to identifying and developing local talent was further demonstrated this year by the alliance we entered into with the College of Banking and Financial Studies to roll out a year-long Branch Manager Certification Programme. The comprehensive programme includes a blend of modules on key areas of Leadership Development and best practices in Retail Banking.

We rolled out a comprehensive Onboarding program for new joiners to ensure they have a world-class experience and are trained on all required global and local mandatory e-learning programmes within the first 30 days.

Committed to the development of our employees' leadership capabilities, we have been in partnership with Outward Bound to help staff discover their potential. This year a team of six HSBC Bank Oman employees completed Outward Bound Oman's week-long expedition crossing 140 kilometres from Duqum to Fahud in commemoration of the 44th National Day.

Continuing our partnership with the British Council and the Ministry of Education, two Kids Read events were held during the quarter. Now in our 5th year of sponsorship, Kids Read encourages children to read for pleasure and coaches parents on techniques that can be used while reading to their children at home.

More than 90 staff members observed the Earth Hour's "Light Out" initiative when the Bank's head office lights were switched off for an hour on March 28th. Moreover, in collaboration with the Ministry of Health, we launched an environmentally focused initiative under which staff volunteers planted trees in health centres in Muscat, Sohar and Salalah.

Building on our Special Educational Needs (SEN) training programme for teachers, under which 150 Government schools' teachers received on-line training, a team of specialists from the United Kingdom visited Oman to deliver a series of SEN workshops to teachers across the Sultanate's schools. The specialists' visits aimed to provide SEN guidance in the areas of classroom behaviour as a mode of communication, as well as providing help regarding education and mental health with emphasis on Dyslexia and Autism Spectrum Disorders.

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 am pleased to acknowledge the safe return of His Majesty Sultan Qaboos bin Said, and congratulate the people of Oman on this momentous occasion. We continue to offer our full support as His Majesty continues to lead the Sultanate to further prosperity and development.

David Eldon
Chairman



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

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **HSBC Bank Oman SAOG** as of 31 March 2015, and the related condensed statement of profit or loss and other comprehensive income, changes in equity and cash flows for the three month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’ and the minimum disclosure requirements issued by the Capital Market Authority (“CMA”). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’ and the minimum disclosure requirements issued by the Capital Market Authority (“CMA”).

27 April 2015
Muscat, Sultanate of Oman

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Summary of unaudited results for the three months period ended 31 March 2015

	31 March 2015 RO'000	31 March 2014 RO'000	Change %
Loans and advances net of provisions and reserved interest	1,226,047	1,017,146	20.5
Customer deposits	1,945,364	1,948,142	(0.14)
Net assets	302,352	301,634	0.2
* Net assets per share	0.151	0.151	-
	Three months period ended 31 March 2015 RO'000	Three months period ended 31 March 2014 RO'000	Change %
Net interest income	12,081	11,500	5.1
Net profit for the period	3,780	3,087	22.4
** Earnings per share (annualised)	0.008	0.006	33.3
*** Capital adequacy ratio (CAR)	17.82%	19.82%	(2.0)

* *Net assets (book value) per share is calculated by dividing the net assets (book value) at 31 March by the number of ordinary shares in issue at 31 March.*

** *Earnings per share (annualised) has been calculated by dividing the net profit after tax attributable to ordinary shareholders for the period ended 31 March 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 three months period ended 31 March 2015

	<i>Notes</i>	Three months ended 31 March 2015 RO' 000	Three months ended 31 March 2014 RO' 000
Interest income	5	14,017	13,109
Interest expense	6	(1,936)	(1,609)
Net interest income		12,081	11,500
Net fee income		3,300	2,426
Net exchange income		1,574	1,642
Dividend income		156	537
Other operating income	7	1,530	15
Net operating income before loan impairment charges and other credit risk provisions		18,641	16,120
Loan impairment (charges) and other credit risk provisions - net of recoveries	8	(809)	(231)
Net operating income		17,832	15,889
Operating expenses	9	(12,739)	(11,691)
Amortisation of intangible assets	10	(571)	(571)
Total operating expenses		(13,310)	(12,262)
Profit before tax		4,522	3,627
Tax expense		(742)	(540)
Profit for the period		3,780	3,087
Other comprehensive income / (expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Available-for-sale investment			
- Fair value gain		36	276
- Fair value gain reclassified to profit or loss		(646)	-
- Income tax		49	(4)
		(561)	272
Exchange differences			
- Foreign exchange loss reclassified to profit or loss on disposal of India operations		216	-
- Effect of currency translation		64	32
		280	32
Other comprehensive income / (expense) for the period net of tax		(281)	304
Total comprehensive income for the period		3,499	3,391
Earnings per share - basic (RO)	11	0.008	0.006

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

Unaudited interim condensed statement of financial position as at 31 March 2015

		At 31 March 2015	At 31 March 2014	Audited At 31 December 2014
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		271,743	212,998	180,007
Due from banks		202,997	246,643	155,902
Loans and advances to customers - net	12	1,226,047	1,017,146	1,161,313
Financial investments	13	567,676	774,429	666,151
Other assets	14	38,669	73,578	39,433
Intangible assets	15	9,523	11,808	10,094
Property and equipment	16	27,698	30,602	30,012
Total assets		2,344,353	2,367,204	2,242,912
Liabilities and equity				
Liabilities				
Due to banks		32,763	27,185	29,966
Deposits from customers	17	1,945,364	1,948,142	1,852,339
Other liabilities	18	63,874	90,243	50,730
Total liabilities		2,042,001	2,065,570	1,933,035
Equity				
Share capital	23	200,031	200,031	200,031
Legal reserve	24(a)	34,984	33,759	34,984
Statutory reserve	24(b)	-	1,534	1,446
Available-for-sale fair value reserve	24(c)	4,036	5,338	4,597
Foreign exchange reserve	24(d)	(240)	-	(497)
Retained earnings		63,541	60,972	69,316
Total equity		302,352	301,634	309,877
Total equity and liabilities		2,344,353	2,367,204	2,242,912
Net assets per share - RO		0.151	0.151	0.155
<i>Off-balance sheet items:</i>				
Contingent liabilities and commitments				
- Documentary credits		97,980	94,608	112,283
- Guarantees		363,922	274,818	325,329
- Others	19	990,041	1,419,981	1,147,461
		1,451,943	1,789,407	1,585,073

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

The interim condensed financial statements were authorised for issue on 27 April 2015 in accordance with the resolution of the Board of Directors.

David Eldon
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the three months period ended 31 March 2015

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Available-for- sale fair value reserve RO'000	Foreign exchange reserve RO'000	Retained profits RO'000	Total RO'000
At 1 January 2014	200,031	33,759	1,486	5,066	-	65,505	305,847
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	3,087	3,087
Other comprehensive income / (expenses) for the period							
Effect of currency translation	-	-	48	-	-	(16)	32
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	272	-	-	272
Total other comprehensive income for the period	-	-	48	272	-	(16)	304
Total comprehensive income for the period	-	-	48	272	-	3,071	3,391
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2013	-	-	-	-	-	(7,604)	(7,604)
At 31 March 2014	200,031	33,759	1,534	5,338	-	60,972	301,634
At 1 January 2015	200,031	34,984	1,446	4,597	(497)	69,316	309,877
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	3,780	3,780
Other comprehensive income / (expenses) for the period							
Exchange differences	-	-	23	-	257	-	280
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	(561)	-	-	(561)
Total other comprehensive income for the period	-	-	23	(561)	257	-	(281)
Total comprehensive income for the period	-	-	23	(561)	257	3,780	3,499
Transfer to retained profits on sale of India operations	-	-	(1,469)	-	-	1,469	-
	-	-	(1,446)	(561)	257	5,249	3,499
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2014	-	-	-	-	-	(11,024)	(11,024)
At 31 March 2015	200,031	34,984	-	4,036	(240)	63,541	302,352

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 three months period ended 31 March 2015

	<i>Notes</i>	Three months ended 31 March 2015 RO' 000	Three months ended 31 March 2014 RO' 000
Cash flows from operating activities			
Profit before tax		4,522	3,627
Adjustments for:			
– non-cash items included in profit before tax		1,124	1,246
– change in operating assets		(65,117)	(48,766)
– change in operating liabilities		114,458	165,116
– tax paid		(915)	(218)
Net cash generated from operating activities		54,072	121,005
Cash flows from investing activities			
Purchase of financial investments		(1,837,764)	(1,931,881)
Proceeds from maturity of financial investments		1,933,773	1,981,036
Purchase of property and equipment	16	(479)	(211)
Cash out flow from sale of India operation, net of cash and cash equivalents		(2,544)	-
Net cash generated from investing activities		92,986	48,944
Cash flows from financing activity			
Dividends paid		(11,024)	(7,604)
Net cash used in financing activity		(11,024)	(7,604)
Net change in cash and cash equivalents		136,034	162,345
Cash and cash equivalents at the beginning of the period		290,057	254,224
Cash and cash equivalents at the end of the period	28	426,091	416,569

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

1 Legal status and activities

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

2 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

The audited financial statements of the Bank as at and for the year ended 31 December 2014 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, the disclosure requirements of CMA and the applicable regulations of the CBO.

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

(b) Presentation of information

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

(c) Comparative information

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

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

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

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

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

3 Accounting policies

The accounting policies applied by the Bank in these interim condensed financial statements are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2014.

4 Products and services

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

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

Notes on the interim condensed financial statements (unaudited)

5 Interest income

Interest bearing assets earned interest at an overall annualized rate of 2.82% for the three months period ended 31 March 2015 (31 March 2014 – 2.60%).

6 Interest expense

For the three months period ended 31 March 2015, the average overall annualised cost of funds was 0.40% (31 March 2014 – 0.34%).

7 Other operating income

	Three months period ended 31 March 2015	Three months period ended 31 March 2014
	RO'000	RO'000
Gain on sale of India operations*	815	-
Gain on sale of a financial investment	664	-
Other income	51	15
	1,530	15

*Sale of the HBON's banking operations in India

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

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

	Three months period ended 31 March 2015	Three months period ended 31 March 2014
	RO'000	RO'000
Provided during the period – general (note 12)	(724)	(376)
Provided during the period – specific (note 12)	(1,754)	(1,518)
Provisions released/written back (note 12)	1,018	947
Adjustments as a result of fair value unwind	113	58
Reserved interest released	88	85
Written-off loans recovered	587	615
Bad debts directly written off to statement of profit or loss	(137)	(42)
	(809)	(231)

Notes on the interim condensed financial statements (unaudited)

9 Operating expenses

	Three months period ended 31 March 2015 RO'000	Three months period ended 31 March 2014 RO'000
Employee compensation and benefits	(6,270)	(5,853)
General and administrative expenses*	(5,951)	(5,335)
Depreciation of property and equipment	(518)	(503)
	<u>(12,739)</u>	<u>(11,691)</u>

*

*General and administrative expenses for the current period include the RO0.3m of "Mandoos Prize" draw expenses (31 March 2014: RO0.4m)

10 Amortisation of intangible assets

	Three months period ended 31 March 2015 RO'000	Three months period ended 31 March 2014 RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposits	(440)	(440)
Customer relationships	(131)	(131)
	<u>(571)</u>	<u>(571)</u>

11 Earnings per share basic

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

	Three months period ended 31 March 2015	Three months period ended 31 March 2014	For the year ended 31 December 2014
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Net profit for the period (RO'000)	3,780	3,087	12,249
Earnings per share basic – annualised (RO)	0.008	0.006	0.006

Notes on the interim condensed financial statements (unaudited)

12 Loans and advances to customers - net

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

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Overdrafts	93,249	87,387	79,453
Loans	1,189,919	996,605	1,138,184
Bills discounted / purchased	42,957	36,329	43,522
Gross loans and advances	1,326,125	1,120,321	1,261,159
Provision for loan impairment - specific	(34,829)	(36,657)	(36,192)
Provision for loan impairment - general	(16,601)	(14,612)	(15,880)
Reserved interest	(48,648)	(51,906)	(47,774)
Net loans and advances	1,226,047	1,017,146	1,161,313

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

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
0-5%	741,155	528,868	688,267
5-7%	372,182	318,033	346,635
7-10%	147,988	214,555	160,251
10-13%	49,269	45,529	52,134
more than 13%	15,531	13,336	13,872
	1,326,125	1,120,321	1,261,159

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

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
0-6 months	417,971	328,820	380,075
6-12 months	24,377	23,569	20,160
1-3 years	79,661	78,312	76,893
3-5 years	204,592	193,626	203,931
More than 5 years	499,446	392,819	480,254
	1,226,047	1,017,146	1,161,313

Notes on the interim condensed financial statements (unaudited)

12 Loans and advances to customers - net (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Personal and consumer loans	460,803	436,236	456,808
Corporate and commercial			
Import trade	165,589	115,363	162,422
Construction	82,419	48,663	82,496
Manufacturing	202,323	175,793	170,345
Wholesale and retail trade	41,269	37,761	39,678
Export trade	6,520	20,942	7,494
Electricity, gas, water, transportation and communication	100,449	68,500	87,472
Services	194,200	162,302	203,606
Mining and quarrying	24,325	24,350	19,304
Others	48,212	30,411	31,518
	865,306	684,085	804,335
Financial institutions	16	-	16
Total gross loans and advances	1,326,125	1,120,321	1,261,159
Provision for loan impairment - specific	(34,829)	(36,657)	(36,192)
Provision for loan impairment - general	(16,601)	(14,612)	(15,880)
Reserved interest	(48,648)	(51,906)	(47,774)
Net loans and advances	1,226,047	1,017,146	1,161,313
Non performing loans	91,472	96,318	92,573

Specific provision for loan impairment and reserved interest represents 91.3% (31 March 2014 – 91.9% and 31 December 2014 – 90.7%) of gross non-performing loans and advances.

Notes on the interim condensed financial statements (unaudited)

12 Loans and advances to customers (continued)

Provision for loan impairment and reserved interest

The movement on provision for loan impairment for the three months period ended 31 March 2015 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2015	36,192	15,880	52,072
Currency translation effect on opening balance	(8)	-	(8)
Movement due to sale of India operations	-	(3)	(3)
Provided during the period (note 8)	1,754	724	2,478
Provisions released (note 8)	(1,018)	-	(1,018)
Written off during the period	(2,091)	-	(2,091)
Balance at 31 March 2015	34,829	16,601	51,430

The movement on provision for loan impairment for the three months period ended 31 March 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	52	(1)	51
Provided during the period (note 8)	1,518	376	1,894
Provisions released (note 8)	(947)	-	(947)
Written off during the period	(1,015)	-	(1,015)
Balance at 31 March 2014	36,657	14,612	51,269

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

	31 March 2015 RO'000	31 March 2014 RO'000
Balance at the beginning of the period	47,774	49,717
Currency translation effect on opening balance	(1)	7
Reserved during the period	2,302	2,596
Released to the statement of profit or loss	(407)	(85)
Written off during the period	(1,020)	(329)
Balance at end of the period	48,648	51,906

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

HSBC Bank Oman S.A.O.G.

Notes on the interim condensed financial statements (unaudited)

13 Financial investments – classified as available for sale

Financial investments details are provided as follows:

	Fair value 31 March 2015 RO'000	Fair value 31 March 2014 RO'000	Fair value 31 December 2014 RO'000	Carrying value 31 March 2015 RO'000	Carrying value 31 March 2014 RO'000	Carrying value 31 December 2014 RO'000	Cost 31 March 2015 RO'000	Cost 31 March 2014 RO'000	Cost 31 December 2014 RO'000
Marketable securities – MSM									
Finance	2,409	2,466	2,370	2,409	2,466	2,370	1,911	1,911	1,911
Insurance	398	353	398	398	353	398	340	340	340
Services	40	439	-	40	439	-	54	361	-
Industrial	-	38	43	-	38	43	-	54	54
Government bonds	44,407	68,464	44,531	44,407	68,464	44,531	43,845	67,664	43,736
	47,254	71,760	47,342	47,254	71,760	47,342	46,150	70,330	46,041
Marketable securities – Foreign by Sector									
Government securities	-	7,892	9,759	-	7,892	9,759	-	7,893	9,759
Foreign shares	5,266	4,373	5,274	5,266	4,373	5,274	2,340	2,340	2,340
	5,266	12,265	15,033	5,266	12,265	15,033	2,340	10,233	12,099
Unquoted and other investments									
Certificates of deposits				490,029	675,048	590,022	490,029	675,049	590,022
Treasury bills				19,901	-	-	19,901	-	-
Unquoted Omani shares				1,010	1,010	1,010	1,010	1,010	1,010
Unquoted foreign shares				67	67	67	67	67	67
Investment fund units				4,149	14,279	12,677	3,590	11,717	11,717
				515,156	690,404	603,776	514,597	687,843	602,816
Total				567,676	774,429	666,151	563,087	768,406	660,956

Notes on the interim condensed financial statements (unaudited)

13 Financial investments (continued)

Details of AFS investments are as follows:	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Cost of:			
Quoted - Foreign Government securities	-	7,893	9,759
Quoted – Equity and other investments	48,490	72,670	48,381
Unquoted and other investments	514,597	687,843	602,816
	563,087	768,406	660,956
Revaluation gain of:			
Quoted - Equity and other securities	4,589	6,023	5,195
	567,676	774,429	666,151

14 Other assets

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Derivatives - positive mark to market	3,825	726	2,489
Prepayments and accrued income	1,819	1,684	1,649
Deferred tax asset	2,984	3,866	3,026
Acceptances	28,157	65,519	30,550
Others	1,884	1,783	1,719
	38,669	73,578	39,433

15 Intangible assets

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Core deposits	12,306	12,306	12,306
Customer relationships	3,691	3,691	3,691
	15,997	15,997	15,997
Less: amortised	(6,474)	(4,189)	(5,903)
	9,523	11,808	10,094

Notes on the interim condensed financial statements (unaudited)

16 Property and equipment

RO0.5m of property and equipment were added during the period (31 March 2014: RO0.2m).

17 Deposits from customers

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Deposits details are as follows:			
Current and call	1,010,127	1,174,348	969,732
Savings	471,861	449,785	457,911
Time deposits	458,966	319,921	419,780
Others	4,410	4,088	4,916
	<u>1,945,364</u>	<u>1,948,142</u>	<u>1,852,339</u>

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

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
0-6 months	793,882	784,682	727,392
6-12 months	266,514	297,410	259,458
1-3 years	143,496	124,311	142,332
3-5 years	325,936	303,091	321,083
Over 5 years	415,536	438,648	402,074
	<u>1,945,364</u>	<u>1,948,142</u>	<u>1,852,339</u>

The interest rate bands of deposits are as follows:

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
0-2%	1,761,802	1,753,725	1,660,260
2-4%	183,551	191,314	188,830
4-6%	-	47	7
6-8%	11	112	360
8-10 %	-	2,944	2,882
	<u>1,945,364</u>	<u>1,948,142</u>	<u>1,852,339</u>

Notes on the interim condensed financial statements (unaudited)

18 Other liabilities

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Derivatives - negative mark to market	1,111	1,452	1,009
Deferred tax liability	773	1,252	1,128
Retirement benefit liability	510	570	446
Acceptances	28,157	65,519	30,550
Tax liability	2,145	4,384	2,368
Accruals and deferred income	2,373	1,622	2,288
Obligation under finance lease	891	1,063	1,153
Others	27,914	14,381	11,788
	63,874	90,243	50,730

19 Contingent liabilities, commitments and derivatives

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
Forward forex contracts – sales	121,161	264,916	154,021
Forward forex contracts – purchases	121,161	266,487	155,670
Currency swaps	-	73,575	-
Interest rate swaps	91,836	95,557	91,836
Undrawn unconditionally cancellable commitments	515,633	637,980	566,465
Undrawn unconditionally non-cancellable commitments	140,250	81,466	179,469
	990,041	1,419,981	1,147,461

As at 31 March 2015, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore they do not consider it necessary to make any additional provisions in this regard.

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

	<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 31 March 2015				
Assets				
Derivatives	-	3,825	-	3,825
Financial investments: available-for-sale	52,520	514,079	1,077	567,676
Liabilities				
Derivatives	-	1,111	-	1,111
At 31 March 2014				
Assets				
Derivatives	-	726	-	726
Financial investments: available-for-sale	84,025	689,327	1,077	774,429
Liabilities				
Derivatives	-	1,452	-	1,452

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)

21 Asset liability mismatch

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

Maturities	31 March 2015			31 March 2014			31 December 2014		
	Assets	Liabilities and equity	Mismatch	Assets	Liabilities and equity	Mismatch	Assets	Liabilities and equity	Mismatch
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
0-6 months	1,367,491	889,985	477,506	1,464,558	893,723	570,835	1,293,262	807,501	485,761
6-12 months	39,737	271,110	(231,373)	71,345	307,160	(235,815)	32,721	273,076	(240,355)
1-3 years	120,542	143,514	(22,972)	101,603	126,356	(24,753)	116,597	142,352	(25,755)
3-5 years	235,577	325,936	(90,359)	242,069	303,091	(61,022)	232,191	321,083	(88,892)
more than 5 years	581,006	713,808	(132,802)	487,629	736,874	(249,245)	568,141	698,900	(130,759)
	2,344,353	2,344,353	-	2,367,204	2,367,204	-	2,242,912	2,242,912	-

22 Exposure to credit risk

	Loans and advances (As per CBO)			Due from banks			Financial investments		
	31 March 2015	31 March 2014	31 December 2014	31 March 2015	31 March 2014	31 December 2014	31 March 2015	31 March 2014	31 December 2014
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Individually impaired - non performing	91,472	96,318	92,573	-	-	-	-	-	-
Provision for loan impairment specific and reserved interest	(83,477)	(88,563)	(83,966)	-	-	-	-	-	-
Carrying amount of non-performing	7,995	7,755	8,607	-	-	-	-	-	-
Past due and not impaired	16,137	23,392	11,105	-	-	-	-	-	-
Neither past due nor impaired	1,218,516	1,000,611	1,157,481	202,997	246,643	155,902	567,676	774,429	666,151
General provision	(16,601)	(14,612)	(15,880)	-	-	-	-	-	-
Total carrying amount	1,226,047	1,017,146	1,161,313	202,997	246,643	155,902	567,676	774,429	666,151

Notes on the interim condensed financial statements (unaudited)

23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (31 March 2014 – 2,000,312,790 shares of RO 0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO 0.100 each (31 March 2014 – 7,500 million of shares of RO 0.100 each)

Major Shareholder

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

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

24 Reserves

(a) Legal reserve

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

(b) Statutory reserve

Regulations issued on 30 September 2000 by the authority regulating the banking activities in India, in which certain branches operate, require the branches to appropriate 25% of their profits for the year to a statutory reserve, which is not distributable without the prior permission of the regulatory authority. An earlier regulation issued on 27 March 1989, required the branches in India to appropriate 20% of their profits to a statutory reserve until the year 2000. During the period the closing balance of statutory reserves has been transferred to retained earnings due to sale of India operations.

(c) Available-for-sale fair value reserve

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

(d) Foreign exchange reserve

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

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

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

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

Notes 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
31 March 2015	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	-	33,967	33,967
Current, deposit and other accounts	-	23	-	15,812	15,835
Letters of credit and guarantees	-	-	-	8,694	8,694
Due from banks	34,360	-	-	-	34,360
Due to banks	8,294	-	-	-	8,294
For the period ended 31 March 2015					
Net fee income	28	-	-	-	28
Other operating expenses	(2,941)	(7)	(533)	(29)	(3,510)

	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
31 March 2014	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	-	8,693	8,693
Current, deposit and other accounts	-	32	-	18,427	18,459
Letters of credit and guarantees	-	-	-	9,291	9,291
Due from banks	58,778	-	-	-	58,778
Due to banks	10,991	-	-	-	10,991
For the period ended 31 March 2014					
Net fee income	40	-	-	-	40
Other operating expenses	(2,631)	(4)	(721)	(23)	(3,379)

Related party loans and advances bear interest at rates between 1.5% p.a. and 8% p.a. (31 March 2014: between 3% p.a. and 8% p.a.) Related party deposits bear interest at rates between 0.25% p.a. and 1.25% p.a. (31 March 2014: between 0.25% p.a. and 1.25% p.a.)

Notes on the interim condensed financial statements (unaudited)

26 Operating segments

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

Geographical areas

A geographical analysis of key financial data by location of primary assets as at 31 March 2015 is set out below:

	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
31 March 2015				
Net operating income before loan impairment charges and other credit risk provisions	18,653	(12)	-	18,641
Loan impairment charges and other credit risk provisions – net of recoveries	(809)	-	-	(809)
Net operating income	17,844	(12)	-	17,832
Total operating expenses	(13,123)	(187)	-	(13,310)
Profit before tax	4,721	(199)	-	4,522
Tax expense	(735)	(7)	-	(742)
Profit for the period	3,986	(206)	-	3,780
Loans and advances to customers (net)	1,226,047	-	-	1,226,047
Total assets	2,344,419	15,474	(15,540)	2,344,353
Deposits from customers	1,945,328	36	-	1,945,364
Total liabilities	2,041,911	4,407	(4,317)	2,042,001

A geographical analysis of key financial data by location of primary assets as at 31 March 2014 is set out below:

	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
31 March 2014				
Net operating income before loan impairment charges and other credit risk provisions	16,112	8	-	16,120
Loan impairment charges and other credit risk provisions – net of recoveries	(231)	-	-	(231)
Net operating income	15,881	8	-	15,889
Total operating expenses	(11,995)	(267)	-	(12,262)
Profit before tax	3,886	(259)	-	3,627
Tax expense	(540)	-	-	(540)
Profit for the period	3,346	(259)	-	3,087
Loans and advances to customers (net)	1,017,059	87	-	1,017,146
Total assets	2,361,722	30,650	(25,168)	2,367,204
Deposits from customers	1,940,177	7,965	-	1,948,142
Total liabilities	2,063,888	12,219	(10,537)	2,065,570

Business line segment

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

Notes on the interim condensed financial statements (unaudited)

27 Capital adequacy ratio

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

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
CET 1/Tier 1 capital	281,124	276,716	281,124
Tier 2 capital (T2)	17,865	16,572	17,865
Total regulatory capital	298,989	293,288	298,989
Risk-weighted assets	1,678,268	1,479,421	1,639,028
CET 1 / Tier 1 capital ratio	16.75%	18.70%	17.15%
Total capital ratio	17.82%	19.82%	18.24%

28 Cash and cash equivalents

	31 March 2015 RO'000	31 March 2014 RO'000	31 December 2014 RO'000
<i>Unaudited interim condensed statement of financial position comprises:</i>			
Cash and balances with central banks	271,743	212,998	180,007
Due from banks	202,997	246,643	155,902
Due to banks	(32,763)	(27,185)	(29,966)
	441,977	432,456	305,943
Adjustment for items maturing after three months from date of acquisition and restricted balances	(15,886)	(15,887)	(15,886)
	426,091	416,569	290,057
<i>Cash and cash equivalent comprise:</i>			
Cash and balances with central banks	255,857	197,111	164,121
Due from banks	202,997	246,643	155,902
Due to banks	(32,763)	(27,185)	(29,966)
Total	426,091	416,569	290,057

Notes on the interim condensed financial statements (unaudited)

29 Liquidity coverage ratio (LCR)

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

Liquidity coverage ratio disclosure for the period ended 31 March 2015:

	Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets		
1 Total High quality liquid assets (HQLA)	-	745,838
Cash outflows		
2 Retail deposits and deposits from small business customers, of which:	276,027	26,213
3 - Stable deposits	27,787	1,389
4 - Less stable deposits	248,240	24,824
5 Unsecured wholesale funding, of which:	1,214,506	509,945
6 - Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 - Non-operational deposits (all counterparties)	1,214,506	509,945
8 - Unsecured debt	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which	151,661	15,002
11 - Outflows related to derivative exposures and other collateral requirements	-	-
12 - Outflows related to loss of funding on debt products	-	-
13 - Credit and liquidity facilities	151,661	15,002
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	1,036,868	51,843
16 Total cash outflows (2+5+10+15)	-	603,003
Cash inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	204,478	164,719
19 Other cash inflows	-	-
20 Total cash inflows (17+18+19)	204,478	164,719
		Total Adjusted Value
21 Total HQLA		745,838
22 Total net cash outflows (16-20)		438,284
23 Liquidity coverage ratio (21/22)		170%

*simple average of monthly observations over the last three months (Jan –Mar 2015)

30 Corresponding figures

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