



HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report
31 March 2017



Interim Condensed Financial Report – 31 March 2017

Contents	Page
Board of Directors' report	3-4
Summary of unaudited results	5
Review report of the independent auditors	6
Unaudited interim condensed statement of comprehensive income	7
Unaudited interim condensed statement of financial position	8
Unaudited interim condensed statement of changes in equity	9
Unaudited interim condensed statement of cash flows	10
Notes to the unaudited interim condensed financial statements	11-27

Presentation of information

This document comprises the Interim Condensed Financial Report – 31 March 2017 for HSBC Bank Oman S.A.O.G. ('HBON') ('the Bank'). It contains Unaudited Interim Condensed Financial Statements, together with the Board of Directors' Report, the Auditor's review report and the Summary of Unaudited Results.

Board of Directors' Report for the three months ended 31 March 2017

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's first quarter financial results for 2017.

Performance Summary

Our first quarter performance shows a 62.9% increase in net profit to RO5.7m compared to RO3.5m for the same period in 2016, mainly due to lower loan impairment charges.

Net operating income, before loan impairment charges, decreased marginally by 3.8% to RO17.8m compared to RO18.5m for the same period last year.

Net interest income declined by 4.6% to RO12.4m for the period ended 31 March 2017 compared to RO13.0m for the same period in 2016. This is mainly due to higher interest expenses on corporate deposits. Net fee income decreased by 13.3% to RO2.6m for the period ended 31 March 2017, due to lower credit facilities fees from corporate customers and lower debit cards and wealth revenue from retail customers.

Net trading income increased by 17.4% to RO2.7m compared to RO2.3m for the same period in 2016 due to higher volumes and cross currency investments.

A net recovery of RO1.2m has been reported for loan impairment charges compared to a net charge of RO2.3m for the same period in 2016. This was mainly due to a release from the general provision of RO1.6m due to the reduction in corporate loans which was partly offset by a net charge of RO0.4m in the retail portfolio.

Operating expenses remained flat at RO12.2m compared with the same period in 2016. Cost discipline remains a key focus of management.

Loans and advances, net of provisions and reserved interest, fell by 9.0% to RO1,261.5m compared to RO1,385.7m as at 31 March 2016, mainly due to repayment of a small number of large corporate loans.

Customer deposits increased by 8.9% to RO1,941.4m compared to RO1,782.1m as at 31 March 2016.

HBON's capital adequacy ratio decreased to 16.5% as at 31 March 2017 compared to 18.2% as at 31 March 2016, mainly due to the impact of regulatory changes in relation to the treatment of investments in certain overseas government securities.

Delivering the best customer experience

Our commitment to customer experience continues through our Absher programme which focuses on customer centricity throughout the Bank. In 1Q we launched our tailor-made "absher in action" training workshops in partnership with Oman Sail, which were designed to help transform our employees' performance in key areas related to customer service, teamwork, decision-making and problem solving.

In Retail Banking and Wealth Management, we started the year with two new campaigns to drive the momentum for 2017. The first campaign promoted our Mandoos savings scheme encouraging customers to save for the future. This was followed by another campaign promoting our Advance proposition encouraging customers to open accounts and transfer their salaries to HSBC, one benefit of which is to give them chances to win cash prizes during the campaign period.

The campaigns, along with our enhanced focus on meeting our customer needs, has resulted in significant increases in asset acquisition during the quarter when compared to the previous quarter.

In line with our strategy to promote digital banking, we have installed digital kiosks in 34 of our branches. These will enable walk-in customers to access internet banking within the branch premises. This initiative together with our continuous efforts to educate our customers about the benefits of digital banking through our digital roadshows, has resulted in an increase in our customers' digital engagement to 44% in 1Q17 from 24% in 4Q16.

In our Wholesale Banking business we are proud to have further enhanced our product suite for our corporate customers, including key developments in our digital offering. In March 2017 we have obtained the required approvals for launching our Virtual Card proposition, which is an extension of our existing credit card offering. This proposition is meant for a select group of corporate customers only. It will allow our customers to dynamically set spending limits and have reconciliation controls specific to their purchasing needs. This proposition is the first of its kind product in Oman.

During the quarter we signed a partnership framework with the Public Authority for Investment Promotion and Export Development (Ithraa) aiming to support foreign direct investment (FDI) into Oman and to strengthen Ithraa's work in promoting Oman's offer as a great place to live, work and invest. This partnership complements HSBC Bank Oman's ongoing efforts to help develop and diversify the Omani economy through our global connectivity and local expertise. It also aligns with the Sultanate's ongoing efforts to attract international businesses who see Oman as a strategic investment opportunity.

Investing in our people and the community

During the quarter we continued to invest in staff training programmes focusing on improving the customer experience, fighting financial crime and risk management.

In the Corporate Sustainability field we have involved in several projects that were supported by active participation from the Bank's staff.

In cooperation with the British Council we launched the "Taqaddam program", which is designed to support the development of life skills in first year college students. The programme imparts students with skills, confidence and lifelong learning to reflect the changing needs of the work environment in the 21st century. The course, which is over a 7 weeks period, also provides a workshop for teachers, helping to develop their capacity as educators. On 25th March we organized an "Earth Hour Walk", during which volunteers from the Bank, with their family members, joined a 2 hour awareness activity at the Qurum Natural Park. The event included some fun activities to raise awareness about the importance of saving the environment. HSBC Bank Oman in collaboration with the Muscat Municipality had all the unnecessary lights in the park switched off from 8:30-9:30pm on the day.

Conclusion

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

I 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.

Sir Sherard Cowper-Coles
Chairman

Summary of unaudited results for the three months period ended 31 March 2017

	31 March 2017 RO'000	31 March 2016 RO'000	Change (%)
Loans and advances net of provisions and reserved interest	1,261,499	1,385,711	(9.0)
Customer deposits	1,941,440	1,782,071	8.9
Net assets	309,639	299,921	3.2
* Net assets per share	0.155	0.150	3.3
	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000	Change (%)
Net interest income	12,430	12,988	(4.3)
Profit for the period	5,726	3,503	63.5
** Earnings per share (annualised)	0.011	0.007	57.1
*** Capital adequacy ratio (CAR)	16.46%	18.21%	(1.8)

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

** *Earnings per share (annualised) has been calculated by dividing the annualised 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.*



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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Bank Oman SAOG as of 31 March 2017, and the related interim condensed statements of 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").

26 April 2017
Muscat, Sultanate of Oman



**Unaudited interim condensed statement of comprehensive income for the three months period ended
31 March 2017**

	<i>Notes</i>	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
Interest income	5	14,615	14,500
Interest expense	6	(2,185)	(1,512)
Net interest income		12,430	12,988
Fee income		3,271	3,668
Fee expense		(640)	(636)
Net fee income		2,631	3,032
Net trading income		2,691	2,328
Dividend income		6	114
Other operating income - net	7	52	22
Net operating income before loan impairment charges and other credit risk provisions		17,810	18,484
Loan impairment charges and other credit risk provisions - net of recoveries	8	1,230	(2,271)
Net operating income		19,040	16,213
Operating expenses	9	(11,582)	(11,604)
Amortisation of intangible assets	10	(571)	(571)
Total operating expenses		(12,153)	(12,175)
Profit before tax		6,887	4,038
Tax expense		(1,161)	(535)
Profit for the period		5,726	3,503
Other comprehensive income /(loss)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Available-for-sale investment			
- Fair value gain / (loss)		166	(5,027)
- Fair value gain reclassified to profit or loss on disposal		(34)	-
- Income tax		73	687
Other comprehensive income / (loss) for the period - net of tax		205	(4,340)
Total comprehensive income / (loss) for the period		5,931	(837)
Earnings per share – basic and diluted (RO)	11		
- for the period		0.003	0.002
- annualised		0.011	0.007

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

Unaudited interim condensed statement of financial position as at 31 March 2017

		At 31 March 2017	At 31 March 2016	Audited At 31 December 2016
	<i>Notes</i>	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		229,442	133,730	284,947
Due from banks		90,480	16,761	80,222
Loans and advances to customers - net	12	1,261,499	1,385,711	1,418,415
Financial investments	13	700,723	557,096	412,969
Other assets	14	24,152	33,149	23,299
Intangible assets	15	4,953	7,238	5,524
Property and equipment	16	26,325	27,122	26,504
Deferred tax assets		1,994	2,262	2,013
Total assets		2,339,568	2,163,069	2,253,893
Liabilities and equity				
Liabilities				
Due to banks		46,533	35,066	37,426
Deposits from customers	17	1,941,440	1,782,071	1,866,655
Other liabilities	18	37,496	43,610	30,021
Current tax liabilities		4,460	2,171	6,081
Deferred tax liabilities		-	230	-
Total liabilities		2,029,929	1,863,148	1,940,183
Equity				
Share capital	23	200,031	200,031	200,031
Legal reserve	24(a)	37,967	36,277	37,967
Available-for-sale fair value reserve	24(b)	(2,524)	(3,257)	(2,729)
Retained earnings		74,165	66,870	78,441
Net equity		309,639	299,921	313,710
Total liabilities and equity		2,339,568	2,163,069	2,253,893
Net assets per share - RO		0.155	0.150	0.157
<i>Off-balance sheet items:</i>				
Contingent liabilities and other commitments				
- Documentary credits		54,416	57,346	52,976
- Guarantees and performance bonds		353,075	391,727	356,423
- Others	19	1,124,637	934,261	903,659
		1,532,128	1,383,334	1,313,058

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

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

Sir Sherard Cowper-Coles
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the three months period ended 31 March 2017

	Share capital RO'000	Legal reserve RO'000	Available- for-sale fair value reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2016	200,031	36,277	1,083	71,125	308,516
Total comprehensive (loss) / income for the period					
Profit for the period	-	-	-	3,503	3,503
Other comprehensive loss for the period					
Net movement in fair value of available-for-sale investments (net of tax)	-	-	(4,340)	-	(4,340)
Total other comprehensive loss for the period	-	-	(4,340)	-	(4,340)
Total comprehensive (loss) / income for the period	-	-	(4,340)	3,503	(837)
Transaction with shareholders, recorded directly in equity					
Dividend paid for 2015	-	-	-	(7,758)	(7,758)
At 31 March 2016	200,031	36,277	(3,257)	66,870	299,921
At 1 January 2017	200,031	37,967	(2,729)	78,441	313,710
Total comprehensive income for the period					
Profit for the period	-	-	-	5,726	5,726
Other comprehensive income for the period					
Net movement in fair value of available-for-sale investments (net of tax)	-	-	205	-	205
Total other comprehensive income for the period	-	-	205	-	205
Total comprehensive income for the period	-	-	205	5,726	5,931
Transaction with shareholders, recorded directly in equity					
Dividend for 2016	-	-	-	(10,002)	(10,002)
At 31 March 2017	200,031	37,967	(2,524)	74,165	309,639

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

Unaudited interim condensed statement of cash flows for the three months period ended 31 March 2017

	<i>Notes</i>	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
Cash flows from operating activities			
Profit before tax		6,887	4,038
Adjustments for:			
– Loan impairment charges and other credit risk provisions – net of recoveries	8	(1,230)	2,271
– Depreciation of property and equipment	9	418	424
– Amortisation of intangible assets	10	571	571
– Net (gain) / loss on sale of financial investments	7	(26)	15
– Amortisation of discount on financial investments		(350)	(503)
– Employer's current service cost, with interest		52	13
– Finance leases charge		14	20
– Effect of currency translation		(458)	-
– Change in operating assets			
Change in loans and advances to customers – net		158,146	(187,174)
Change in other assets		(853)	8,840
– Change in operating liabilities			
Change in deposits from customers		74,785	(20,267)
Change in other liabilities		(2,580)	(6,184)
– Retirement benefits paid		(13)	(117)
– Tax paid		(2,690)	(920)
Net cash generated from / (used in) operating activities		232,673	(198,973)
Cash flows from investing activities			
Purchase of financial investments		(846,421)	(266,387)
Proceeds from maturity of financial investments		559,633	337,670
Purchase of property and equipment		(243)	(629)
Proceeds from sale of property and equipment		4	-
Net cash (used in) / generated from investing activities		(287,027)	70,654
Cash flows from financing activities			
Dividends paid		-	(7,758)
Finance leases paid		-	(294)
Net cash used in financing activities		-	(8,052)
Net change in cash and cash equivalents		(54,354)	(136,371)
Cash and cash equivalents at the beginning of the year		327,743	251,796
Cash and cash equivalents at the end of the year	28	273,389	115,425

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

1 Legal status and activities

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

HSBC Middle East Holdings BV ('HMEH') holds 51% of the shares in HBON. The ultimate parent company of HBON is HSBC Holdings plc.

2 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

The audited financial statements of the Bank as at and for the year ended 31 December 2016 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, the disclosure requirements of CMA and the applicable regulations of the CBO.

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

(b) Presentation of information

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

(c) Corresponding figures

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

(d) Use of estimates and assumptions

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

2 Basis of preparation (continued)

(e) Future accounting developments

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

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

3 Accounting policies

The accounting policies applied by the Bank in these interim condensed financial statements are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2016.

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

4 Products and services

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

- Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking needs, consumer finance and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products and financial planning services).
- Commercial Banking ('CMB') product offerings include the provision of receivables financing services, payments and cash management, international trade finance, treasury and capital markets, commercial cards, cash and derivatives in foreign exchange and rates, and online and direct banking offerings.
- Global Banking and Markets ('GB&M') provides tailored financial solutions to government, corporate and institutional clients. The client focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; and principal investment activities.
- Corporate Centre ('CT'): During 2017, the HBON management realigned certain functions into a Corporate Center, including Other and Balance Sheet Management ('BSM').

Notes to the unaudited interim condensed financial statements (continued)

5 Interest income

Interest bearing assets earned interest at an overall annualised rate of 2.95% for the three months period ended 31 March 2017 (31 March 2016 – 3.05%).

	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
Loans and advances to customers	13,380	13,032
Financial investments	943	1,134
Due from banks	158	117
Others	134	217
	14,615	14,500

6 Interest expense

For the three months period ended 31 March 2017, the average overall annualised cost of funds was 0.45% (31 March 2016 – 0.33%).

	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
Deposits from customers	(2,185)	(1,512)

7 Other operating income - net

	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
Gain / (loss) on sale of financial investments	26	(15)
Other income	26	37
	52	22

Notes to the unaudited interim condensed financial statements (continued)

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

	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
Released / (provided) during the period – general (note 12)	1,640	(1,987)
Provided during the period – specific (note 12)	(1,833)	(1,801)
Provisions released / written back – specific (note 12)	965	976
Adjustments as a result of fair value unwind	58	57
Reserved interest released	7	25
Written-off loans recovered	532	562
Bad debts directly written off to statement of comprehensive income	(139)	(103)
	1,230	(2,271)

9 Operating expenses

	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
Employee compensation and benefits	(5,796)	(5,772)
General and administrative expenses*	(5,368)	(5,408)
Depreciation of property and equipment	(418)	(424)
	(11,582)	(11,604)

* General and administrative expenses for the current period include the RO0.4m of “Mandoos Prize” draw expenses (31 March 2016: RO 0.4m).

10 Amortisation of intangible assets

	Three months period ended 31 March 2017 RO'000	Three months period ended 31 March 2016 RO'000
This represents amortisation of intangible assets as a result of business combination and is accounted for as follows:		
Core deposits	(440)	(440)
Customer relationships	(131)	(131)
	(571)	(571)

11 Earnings per share – basic and diluted

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

	Three months period ended 31 March 2017	Three months period ended 31 March 2016	Year ended 31 December 2016
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Net profit for the period / year (RO'000)	5,726	3,503	16,889
Earnings per share – basic and diluted (RO)			
- for the period	0.003	0.002	0.008
- annualised	0.011	0.007	0.008

Notes to the unaudited interim condensed financial statements (continued)

12 Loans and advances to customers - net

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

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Overdrafts	64,818	74,350	63,745
Credit cards	23,380	23,442	23,543
Loans	972,268	1,170,737	1,145,680
Clean import loans	256,283	177,083	258,076
Bills discounted / purchased	26,700	23,637	9,693
Gross loans and advances	1,343,449	1,469,249	1,500,737
Provision for loan impairment - specific	(26,117)	(27,395)	(26,508)
Provision for loan impairment - general*	(16,964)	(18,422)	(18,604)
Reserved interest*	(38,869)	(37,721)	(37,210)
Net loans and advances	1,261,499	1,385,711	1,418,415

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

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

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

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
0-5%	909,854	959,518	1,049,947
5-7%	300,753	351,199	314,569
7-10%	80,768	101,536	84,996
10-13%	27,408	30,416	26,310
More than 13%	24,666	26,580	24,915
	1,343,449	1,469,249	1,500,737

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

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
0-6 months	365,321	551,607	526,692
6-12 months	26,568	13,960	15,417
1-3 years	40,889	43,886	31,778
3-5 years	198,045	273,907	233,646
More than 5 years	630,676	502,351	610,882
	1,261,499	1,385,711	1,418,415

12 Loans and advances to customers – net (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Personal and consumer loans	483,772	476,237	484,581
Corporate and commercial			
Import trade	251,585	234,782	208,713
Construction	50,816	91,805	59,341
Manufacturing	102,080	293,387	241,838
Wholesale and retail trade	45,522	43,999	45,286
Electricity, gas, water, transportation and communication	157,845	105,825	113,153
Services	115,894	146,250	119,276
Mining and quarrying	86,533	12,748	87,869
Others	49,402	64,216	140,680
	859,677	993,012	1,016,156
Total gross loans and advances	1,343,449	1,469,249	1,500,737
Provision for loan impairment - specific	(26,117)	(27,395)	(26,508)
Provision for loan impairment - general	(16,964)	(18,422)	(18,604)
Reserved interest	(38,869)	(37,721)	(37,210)
Net loans and advances	1,261,499	1,385,711	1,418,415
Non performing loans (note 22)	70,578	70,455	69,127

Specific provision for loan impairment and reserved interest represents 92.1% (31 March 2016 – 92.4% and 31 December 2016 – 92.2%) of gross non-performing loans and advances.

12 Loans and advances to customers - net (continued)

Provision for loan impairment and reserved interest

The movement on provision for loan impairment for the three months period ended 31 March 2017 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2017	26,508	18,604	45,112
Provided during the period (note 8)	1,833	-	1,833
Provisions released / written back (note 8)	(965)	(1,640)	(2,605)
Written off during the period	(1,259)	-	(1,259)
Balance at 31 March 2017	26,117	16,964	43,081

The movement on provision for loan impairment for the three months period ended 31 March 2016 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total Provision RO'000
Balance at 1 January 2016	28,380	16,435	44,815
Provided during the period (note 8)	1,801	1,987	3,788
Provisions released / written back (note 8)	(976)	-	(976)
Written off during the period	(1,810)	-	(1,810)
Balance at 31 March 2016	27,395	18,422	45,817

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

	31 March 2017 RO'000	31 March 2016 RO'000
Balance at the beginning of the period	37,210	38,441
Reserved during the period	1,818	1,920
Released to the statement of comprehensive income	(103)	(50)
Written off during the period	(56)	(2,590)
Balance at end of the period	38,869	37,721

The estimated fair value of loans and advances is RO1,237m as of 31 March 2017 (31 March 2016 – RO1,360m and 31 December 2016 – RO1,395m).

HSBC Bank Oman S.A.O.G.

Notes to the unaudited interim condensed financial statements (continued)

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

Financial investments details are provided as follows:

	Fair value	Fair value	Fair value	Carrying value	Carrying value	Carrying value	Cost	Cost	Cost
	31 March	31 March	December	31 March	31 March	December	31 March	31 March	December
	2017	2016	2016	2017	2016	2016	2017	2016	2016
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Marketable securities – MSM									
Finance	-	1,362	-	-	1,362	-	-	1,098	-
Insurance	70	398	371	70	398	371	44	340	330
Government bonds	77,717	80,084	70,697	77,717	80,084	70,697	81,155	84,779	74,454
	77,787	81,844	71,068	77,787	81,844	71,068	81,199	86,217	74,784
Other investments									
Treasury bills	619,436	471,275	338,362	619,436	471,275	338,362	618,919	470,769	337,712
Unquoted Omani shares*	260	260	260	260	260	260	260	260	260
Unquoted foreign shares*	7	67	7	7	67	7	7	67	7
Investment fund units	3,233	3,650	3,272	3,233	3,650	3,272	3,312	3,590	3,312
	622,936	475,252	341,901	622,936	475,252	341,901	622,498	474,686	341,291
Total	700,723	557,096	412,969	700,723	557,096	412,969	703,697	560,903	416,075

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

Notes to the unaudited interim condensed financial statements (continued)

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

Details of AFS investments are as follows:	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Cost of:			
Quoted - equity and other investments	81,199	86,217	74,784
Other investments	622,498	474,686	341,291
	703,697	560,903	416,075
Revaluation loss	(2,974)	(3,807)	(3,106)
	700,723	557,096	412,969

14 Other assets

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Acceptances	12,669	24,995	15,639
Derivatives - positive mark-to-market	6,257	5,678	5,445
Prepayments and accrued income	1,264	1,371	1,084
Others	3,962	1,105	1,131
	24,152	33,149	23,299

15 Intangible assets

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Core deposits	12,306	12,306	12,306
Customer relationships	3,691	3,691	3,691
	15,997	15,997	15,997
Less: amortised	(11,044)	(8,759)	(10,473)
	4,953	7,238	5,524

16 Property and equipment

RO0.2m of property and equipment were added during the period (31 March 2016: RO0.6m). Property and equipment disposed of during the period was RO0.02m (31 March 2016: nil).

17 Deposits from customers

Deposits details are as follows:	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Current and call	957,215	892,852	929,613
Savings	470,613	482,345	461,143
Time deposits	511,280	404,614	473,452
Others	2,332	2,260	2,447
	1,941,440	1,782,071	1,866,655

Notes to the unaudited interim condensed financial statements (continued)

17 Deposits from customers (continued)

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

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
0-6 months	710,451	641,000	681,272
6-12 months	264,272	247,761	274,196
1-3 years	395,067	343,111	351,350
3-5 years	160,380	153,436	157,841
Over 5 years	411,270	396,763	401,996
	1,941,440	1,782,071	1,866,655

The interest rate bands of deposits are as follows:

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
0-2%	1,705,855	1,588,746	1,633,752
2-4%	235,585	193,325	232,903
	1,941,440	1,782,071	1,866,655

18 Other liabilities

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Derivatives – negative mark-to-market	630	134	228
Retirement benefit liability	794	532	755
Acceptances	12,669	24,995	15,639
Provisions	725	334	711
Accruals and deferred income	4,128	5,986	6,650
Obligation under finance lease	478	690	464
Dividend payable	10,002	-	-
Others	8,070	10,939	5,574
	37,496	43,610	30,021

19 Contingent liabilities, commitments and derivatives

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Undrawn unconditionally cancellable commitments	619,119	492,832	643,566
Undrawn unconditionally non-cancellable commitments	85,088	121,169	97,385
Forward foreign exchange contracts	343,430	243,260	85,708
Interest rate swaps	77,000	77,000	77,000
	1,124,637	934,261	903,659

As at 31 March 2017, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore the management does not consider it necessary to make any additional provisions in this regard.

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

	Valuation techniques		Total RO'000
	Level 1 RO'000	Level 2 RO'000	
At 31 March 2017			
Assets			
Derivatives	-	6,257	6,257
Financial investments: available-for-sale	70	700,386	700,456
Liabilities			
Derivatives	-	630	630
Deposits from customers	-	82,661	82,661
At 31 March 2016			
Assets			
Derivatives	-	5,678	5,678
Financial investments: available-for-sale	1,760	555,009	556,769
Liabilities			
Derivatives	-	134	134
Deposits from customers	-	83,480	83,480
At 31 December 2016			
Assets			
Derivatives	-	5,455	5,455
Financial investments: available-for-sale	371	412,331	412,702
Liabilities			
Derivatives	-	228	228
Deposits from customers	-	82,404	82,404

Financial investments and derivatives

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

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

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

There has been no change to the basis of valuation of level 2 financial assets and liabilities disclosed in the latest audited financial statements of the Bank for the year ended 31 December 2016.

Notes to the unaudited interim condensed financial statements (continued)

21 Asset liability mismatch

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

Maturities	31 March 2017			31 March 2016			31 December 2016		
	Assets	Liabilities and equity	Mismatch	Assets	Liabilities and equity	Mismatch	Assets	Liabilities and equity	Mismatch
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
0-6 months	1,267,021	797,202	469,819	1,071,723	721,800	349,923	1,138,540	753,399	385,141
6-12 months	78,673	271,736	(193,063)	122,182	251,541	(129,359)	123,068	292,444	(169,376)
1-3 years	66,998	395,067	(328,069)	91,805	343,111	(251,306)	56,889	351,350	(294,461)
3-5 years	244,017	160,380	83,637	322,435	153,436	168,999	279,300	157,841	121,459
more than 5 years	682,859	715,183	(32,324)	554,924	693,181	(138,257)	656,096	698,859	(42,763)
	2,339,568	2,339,568	-	2,163,069	2,163,069	-	2,253,893	2,253,893	-

22 Exposure to credit risk

Loans and advances to customers - net

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Individually impaired – non performing	70,578	70,455	69,127
Provision for loan impairment - specific and reserved interest (note 12)	(64,986)	(65,116)	(63,718)
Carrying amount of non-performing Past due and not impaired	5,592	5,339	5,409
1-30 days	7,687	16,482	7,544
31-60 days	2,192	1,954	3,823
61-89 days	1,327	1,562	1,744
Neither past due nor impaired	1,261,665	1,378,796	1,418,499
Provision for loan impairment - general (note 12)	(16,964)	(18,422)	(18,604)
Total carrying amount (note 12)	1,261,499	1,385,711	1,418,415

Neither past due nor impaired assets

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
Balances with central bank	191,592	86,807	250,767
Due from banks	90,480	16,761	80,222
Financial investments	697,153	551,359	409,059
Other assets	22,888	31,778	22,215
	1,002,113	686,705	762,263

23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (31 March 2016 and 31 December 2016 – 2,000,312,790 shares of RO0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO0.100 each (31 March 2016 and 31 December 2016 – 7,500 million shares of RO 0.100 each).

Major Shareholder

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

	31 March 2017 Number of shares	31 March 2016 Number of shares	31 December 2016 Number of shares
HSBC Middle East Holdings BV	1,020,159,523	1,020,159,523	1,020,159,523

24 Reserves

(a) Legal reserve

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

(b) Available-for-sale fair value reserve

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

Notes to the unaudited interim condensed financial statements (continued)

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

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

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

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

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

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
31 March 2017					
Loans and advances	-	-	-	59,668	59,668
Current, deposit and other accounts	-	1,598	346	14,757	16,701
Letters of credit and guarantees	-	87,213	-	6,003	93,216
Due from banks	-	54,444	-	-	54,444
Due to banks	-	7,407	-	-	7,407
For the period ended 31 March 2017					
Net fee income	-	17	-	-	17
Other operating expenses	-	(2,284)	(4)	(20)	(2,308)
	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
31 March 2016					
Loans and advances	-	-	-	42,755	42,755
Current, deposit and other accounts	-	10,910	88	18,118	29,116
Letters of credit and guarantees	-	88,136	-	9,730	97,866
Due from banks	-	16,547	-	-	16,547
Due to banks	-	10,102	-	-	10,102
For the period ended 31 March 2016					
Net fee expenses	-	(14)	-	-	(14)
Other operating expenses	-	(2,588)	(6)	(24)	(2,618)
Purchase of property and equipment	-	-	-	(6)	(6)

Related party loans and advances bear interest at rates between 1.45% p.a. and 6.5% p.a. (31 March 2016: between 1.45% p.a. and 6% p.a.). Related party deposits bear interest at rates between 0.20% p.a. and 1.25% p.a. (31 March 2016: between 0.25% p.a. and 1.25% p.a.).

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

Compensation of key management personnel

	Three months ended 31 March 2017 RO'000	Three months ended 31 March 2016 RO'000
Wages, salaries and other short term benefits	339	330
Post-employment benefits	30	25
	<u>369</u>	<u>355</u>

26 Operating segments

The factors used to identify the Bank's reporting segment are discussed in the financial statements for the year ended 31 December 2016.

	31 March 2017				
	CMB RO'000	RBWM RO'000	GB&M RO'000	CT RO'000	Total RO'000
Net interest income					
- External	2,046	6,871	2,583	930	12,430
- Internal	1,362	546	(634)	(1,274)	-
	<u>3,408</u>	<u>7,417</u>	<u>1,949</u>	<u>(344)</u>	<u>12,430</u>
Net fee income	1,063	854	755	(41)	2,631
Net trading income	384	317	968	1,022	2,691
Other operating income	5	15	12	26	58
Total operating income	<u>4,860</u>	<u>8,603</u>	<u>3,684</u>	<u>663</u>	<u>17,810</u>
Loan impairment (charges) and other credit risk provisions - net of recoveries	(331)	(419)	1,980	-	1,230
Net operating income	<u>4,529</u>	<u>8,184</u>	<u>5,664</u>	<u>663</u>	<u>19,040</u>
Total operating expenses	<u>(2,724)</u>	<u>(7,872)</u>	<u>(1,425)</u>	<u>(132)</u>	<u>(12,153)</u>
Profit before tax	<u>1,805</u>	<u>312</u>	<u>4,239</u>	<u>531</u>	<u>6,887</u>
Reportable segment assets	<u>457,782</u>	<u>472,000</u>	<u>351,952</u>	<u>1,057,834</u>	<u>2,339,568</u>
Reportable segment liabilities	<u>956,060</u>	<u>675,784</u>	<u>353,426</u>	<u>44,659</u>	<u>2,029,929</u>

Notes to the unaudited interim condensed financial statements (continued)

26 Operating segments (continued)

	31 March 2016				Total RO'000
	CMB RO'000	RBWM RO'000	GB&M RO'000	CT RO'000	
Net interest income					
- External	2,406	7,221	2,237	1,124	12,988
- Internal	474	510	(247)	(737)	-
	<u>2,880</u>	<u>7,731</u>	<u>1,990</u>	<u>387</u>	<u>12,988</u>
Net fees and commission	1,012	1,081	976	(37)	3,032
Net trading income	397	436	950	545	2,328
Other operating income	49	50	-	37	136
Total operating income	<u>4,338</u>	<u>9,298</u>	<u>3,916</u>	<u>932</u>	<u>18,484</u>
Loan impairment (charges) and other credit risk provisions - net of recoveries	(543)	(1,265)	(463)	-	(2,271)
Net operating income	<u>3,795</u>	<u>8,033</u>	<u>3,453</u>	<u>932</u>	<u>16,213</u>
Total operating expenses	(2,949)	(8,218)	(1,114)	106	(12,175)
Profit / (loss) before tax	<u>846</u>	<u>(185)</u>	<u>2,339</u>	<u>1,038</u>	<u>4,038</u>
Reportable segment assets	<u>555,822</u>	<u>464,849</u>	<u>405,316</u>	<u>737,082</u>	<u>2,163,069</u>
Reportable segment liabilities	<u>764,921</u>	<u>754,145</u>	<u>312,103</u>	<u>31,979</u>	<u>1,863,148</u>

27 Capital adequacy ratio

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. The banks are required to maintain minimum capital adequacy ratio of 13.25% including capital conservation buffer for 2017 (31 March 2016 and 31 December 2016: 12.625%) in accordance with CBO stipulated guidelines.

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
CET 1 / Tier 1 capital	295,046	289,930	295,046
Tier 2 capital (T2)	18,640	16,682	18,640
Total regulatory capital	<u>313,686</u>	<u>306,612</u>	<u>313,686</u>
Risk-weighted assets	1,905,355	1,684,188	1,679,450
CET 1 / Tier 1 capital ratio	15.49%	17.21%	17.57%
Total capital ratio	16.46%	18.21%	18.68%

28 Cash and cash equivalents

	31 March 2017 RO'000	31 March 2016 RO'000	31 December 2016 RO'000
<i>Unaudited interim condensed statement of financial position comprises:</i>			
Cash and balances with central banks	229,442	133,730	284,947
Due from banks	90,480	16,761	80,222
Due to banks	(46,533)	(35,066)	(37,426)
Total	<u>273,389</u>	<u>115,425</u>	<u>327,743</u>

Notes to the unaudited interim condensed financial statements (continued)

29 Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) is guided by the CBO through circular BM 1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). Liquidity coverage ratio is calculated on monthly intervals and reported to the CBO. The Banks are required to maintain minimum liquidity coverage ratio of 80% for 2017 (2016: 70%) in accordance with CBO stipulated guidelines.

Liquidity coverage ratio disclosure for the period ended 31 March 2017:

	31 March 2017		31 March 2016	
	Total unweighted value (average*) RO'000	Total weighted value (average*) RO'000	Total unweighted value (average**) RO'000	Total weighted value (average**) RO'000
High quality liquid assets				
1 Total High quality liquid assets (HQLA)		788,922		606,835
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
2	660,929	49,631	741,358	56,864
3 -Stable deposits	329,229	16,461	345,437	17,272
4 -Less stable deposits	331,700	33,170	395,921	39,592
5 Unsecured wholesale funding, of which:				
-Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
6				
7 -Non-operational deposits (all counterparties)	1,355,391	557,420	1,116,813	462,500
8 -Unsecured debt	-	-	-	-
9 Secured wholesale funding	-	-	-	-
10 Additional requirements, of which	90,107	8,732	137,677	13,551
-Outflows related to derivative exposures and other collateral requirements	-	-	-	-
11				
-Outflows related to loss of funding on debt products	-	-	-	-
12				
13 -Credit and liquidity facilities	90,107	8,732	137,677	13,551
14 Other contractual funding obligations	-	-	-	-
15 Other contingent funding obligations	1,029,104	51,455	993,981	49,699
16 Total cash outflows (2+5+10+15)		667,238		582,614
Cash inflows				
17 Secured lending (e.g. reverse repos)	-	-	-	-
18 Inflows from fully performing exposures	177,503	155,510	257,321	174,285
19 Other cash inflows	-	-	-	-
20 Total cash inflows (17+18+19)	177,503	155,510	257,321	174,285
		Total Adjusted Value		Total Adjusted Value
21 Total HQLA		788,922		606,835
22 Total net cash outflows (16-20)		511,728		408,329
23 Liquidity coverage ratio (21/22)		154%		149%

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

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

30 Corresponding figures

Certain corresponding figures for 2016 have been reclassified in order to conform to the presentation for the current period. Such reclassifications have not resulted in change in prior period reported profit and equity.