



HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report
30 September 2016



Interim Condensed Financial Report – 30 September 2016

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Presentation of information

This document comprises the Interim Condensed Financial Report – 30 September 2016 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 nine months ended 30 September 2016

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's financial results for the nine months ended 30 September 2016. It also gives me great pleasure to report that we have been nominated as the 'safest bank in Oman'; an accolade we are proud of.

We continued to see good progress on our strategic objectives of growing revenues, streamlining processes and procedures, and implementing the highest global standards within a framework of delivering excellence in customer service at all times. At the same time it is encouraging to note that the financial results for this third quarter are better than the first two quarters of 2016.

Performance Summary

Our year to date performance shows a 66.7% increase in net profit to RO13.5m compared to RO8.1m for the same period in 2015, mainly due to higher operating income and lower operating expenses partly offset by higher loan impairment charges.

Net operating income, before loan impairment charges, increased by 4.6% to RO56.3m compared to RO53.8m for the same period last year during which we had some significant one-off transactions including the sale of our branches in India.

Net interest income grew by 10.7% to RO40.5m for the period ended 30 September 2016, up from RO36.6m for the same period in 2015. This underlying growth was due to higher interest income from corporate lending coupled with rising yields from the investment of surplus liquidity in government securities, partially offset by lower interest income received from retail customers due to the run-off of older high yield retail loans. Net fee income decreased by 7.2% to RO9.0m for the period ended 30 September 2016, due to lower wealth management, cards and custody fees, the latter on a comparatively weaker performance of the MSM.

Net trading income increased by 9.1% to RO6.0m compared to RO5.5m for the same period in 2015 partly due to the non-repeat of a one-off RO0.2m foreign exchange loss incurred in 2015.

Other operating income decreased to RO0.5m compared to RO1.7m for the same period in 2015 during which the gain on the disposal of HBON's India operations of RO0.8m and other legacy investments of RO0.7m have been booked.

A net charge of RO4.8m has been reported for loan impairment charges compared to a net charge of RO2.9m for the same period in 2015. The bank saw retail specific provisions of RO3.9m and a corporate general provision of RO1.8m, itself attributed to the strong growth in corporate loans and advances. These were partly offset by a net recovery of RO1.3m from corporate customers.

Operating expenses decreased by 13.1% to RO35.8m compared to RO41.2m for the same period in 2015 due to our continuing focus on firm cost control. Our Cost Efficiency Ratio improved to 63.7% compared to 76.6% for the same period in 2015. Our global focus on financial crime compliance continues, but at a cost to our financial performance.

Loans and advances, net of provisions and reserved interest, increased by 8.2% to RO1,395.1m compared to RO1,288.8m as at 30 September 2015.

Customer deposits slightly increased by 0.4% to RO1,888.6m compared to RO1,881.2m as at 30 September 2015. The net loans to deposits ratio (ADR) grew to 73.9% compared to 68.5% as at 30 September 2015.

HBON's capital adequacy ratio stood at 17.9% as at 30 September 2016 compared to 18.1% as at 30 September 2015.

Delivering the best customer experience

In Retail Banking and Wealth Management we continued to invest in our branch network, with two more branches refurbished in Al Khoud and Al Musanah, in line with the Bank's focus on delivering a superior and consistent customer experience at all times.

During the third quarter we revised our deposit rates to ensure a fair return for our deposit customers in line with market changes. We continued to promote greater use of our digital channels, and we saw a sizeable increase in customer digital engagement by 38.8% compared to the same period last year. We also upgraded our HSBC Mobile Banking application, which provides an improved experience to our customers.

Following the success of our recent credit card campaign, which offered our customers an opportunity to win cash-back through a lucky draw upon using their credit cards in Oman or abroad, we launched a similar scheme for our debit cardholders in Q3 2016.

In Commercial Banking, we have continued to exploit our local capabilities by leveraging our regional and global connectivity. We were delighted to win, for the 5th consecutive year, the Euromoney Award for the Best Cash Management Bank in Oman. This success once again reflects the strength of our Liquidity and Cash Management solutions that we can offer to our corporate clients in Oman.

As already mentioned, we were delighted to be ranked 'Safest Bank in Oman' in 2016 by Global Finance Magazine in its annual ranking of the World's Safest Banks.

Investing in our people and the community

We continue to make good progress in supporting the Sultanate's Omanisation agenda. In this regard, we achieved an overall Omanisation percentage of 94% at 30 September 2016, ahead of the Central Bank of Oman's target to maintain 90% overall Omanisation.

The Bank's staff have donated 600 hours so far this year to Corporate Sustainability (CS) activities, which included awareness raising workshops as well as being part of the Minister of Environment's clean-up of the Dayminiyat islands. We are a corporate member of the Environmental Society of Oman and we were the golden sponsor of their recent Intercollege Environmental Public Speaking Event, in addition to supporting some of their other environmental initiatives.

Conclusion

Finally, on behalf of the Board of Directors, I would like to thank all of our customers, staff and management for their 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 would also like to take this opportunity to congratulate the Omani nation on the occasion of its 46th National Day, wishing the country further prosperity under the wise leadership of His Majesty Sultan Qaboos bin Said.

David Eldon
Chairman

Summary of unaudited results for the nine months period ended 30 September 2016

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | Change (%) |
|---|--|--|-------------------|
| Loans and advances net of provisions and reserved interest | 1,395,104 | 1,288,819 | 8.2 |
| Customer deposits | 1,888,550 | 1,881,209 | 0.4 |
| Net assets | 310,121 | 306,590 | 1.2 |
| * Net assets per share | 0.155 | 0.153 | 1.3 |
| | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 | Change (%) |
| Net interest income | 40,471 | 36,649 | 10.4 |
| Net profit for the period | 13,457 | 8,063 | 66.9 |
| ** Earnings per share (annualised) | 0.009 | 0.005 | 80.0 |
| *** Capital adequacy ratio (CAR) | 17.92% | 18.11% | -0.2 |

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

** *Earnings per share (annualised) has been calculated by dividing the annualised net profit after tax attributable to ordinary shareholders for the period ended 30 September 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 30 September 2016, and the related interim condensed statement of comprehensive income for the three month and nine month period then ended and interim condensed statements of changes in equity and cash flows for the nine 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").

30 October 2016
Muscat, Sultanate of Oman



**Unaudited interim condensed statement of comprehensive income for the nine months period ended
30 September 2016**

| | | Quarter ended 30 September 2016 RO'000 | Quarter ended 30 September 2015 RO'000 | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 |
|--|----|---|---|--|--|
| Interest income | 5 | 16,076 | 14,199 | 46,042 | 41,969 |
| Interest expense | 6 | (2,141) | (1,649) | (5,571) | (5,320) |
| Net interest income | | 13,935 | 12,550 | 40,471 | 36,649 |
| Fee income | | 3,206 | 3,528 | 10,960 | 11,039 |
| Fee expense | | (701) | (617) | (1,947) | (1,334) |
| Net fee income | | 2,505 | 2,911 | 9,013 | 9,705 |
| Net trading income | | 1,906 | 2,130 | 6,020 | 5,491 |
| Dividend income | | 105 | 1 | 221 | 294 |
| Other operating income - net | 7 | 385 | 96 | 544 | 1,671 |
| Net operating income before loan impairment charges and other credit risk provisions | | 18,836 | 17,688 | 56,269 | 53,810 |
| Loan impairment charges and other credit risk provisions - net of recoveries | 8 | (1,381) | (683) | (4,814) | (2,929) |
| Net operating income | | 17,455 | 17,005 | 51,455 | 50,881 |
| Operating expenses | 9 | (10,443) | (12,975) | (34,130) | (39,504) |
| Amortization of intangible assets | 10 | (571) | (571) | (1,714) | (1,714) |
| Total operating expenses | | (11,014) | (13,546) | (35,844) | (41,218) |
| Profit before tax | | 6,441 | 3,459 | 15,611 | 9,663 |
| Tax expense | | (839) | (565) | (2,154) | (1,600) |
| Profit for the period | | 5,602 | 2,894 | 13,457 | 8,063 |
| 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 loss | | 248 | (367) | (4,467) | (170) |
| - Fair value gain reclassified to profit or loss on disposal | | (50) | - | (245) | (646) |
| - Amount reclassified to profit or loss in respect of impairment | | 56 | - | 56 | 22 |
| - Income tax | | (23) | 42 | 562 | 78 |
| | | 231 | (325) | (4,094) | (716) |
| Exchange differences | | | | | |
| - Foreign exchange loss reclassified to profit or loss on disposal of India operations | | - | - | - | 216 |
| - Effect of currency translation | | - | 117 | - | 174 |
| | | - | 117 | - | 390 |
| Other comprehensive income / (loss) for the period - net of tax | | 231 | (208) | (4,094) | (326) |
| Total comprehensive income for the period | | 5,833 | 2,686 | 9,363 | 7,737 |
| Earnings per share – basic and diluted (RO) for the period annualised | 11 | 0.003 | 0.001 | 0.007 | 0.004 |
| | | 0.011 | 0.006 | 0.009 | 0.005 |

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

Unaudited interim condensed statement of financial position as at 30 September 2016

| | | At 30 September 2016 | At 30 September 2015 | Audited At 31 December 2015 |
|---|-------|-------------------------|-------------------------|-----------------------------------|
| | Notes | RO'000 | RO'000 | RO'000 |
| Assets | | | | |
| Cash and balances with central banks | | 205,590 | 318,037 | 277,736 |
| Due from banks | | 144,019 | 186,368 | 10,271 |
| Loans and advances to customers - net | 12 | 1,395,104 | 1,288,819 | 1,200,808 |
| Financial investments | 13 | 472,688 | 421,202 | 632,920 |
| Other assets | 14 | 29,574 | 36,779 | 41,989 |
| Intangible assets | 15 | 6,095 | 8,380 | 7,809 |
| Property and equipment | 16 | 26,763 | 27,394 | 26,917 |
| Deferred tax assets | | 2,120 | 2,960 | 1,492 |
| Total assets | | 2,281,953 | 2,289,939 | 2,199,942 |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Due to banks | | 45,923 | 50,330 | 36,211 |
| Deposits from customers | 17 | 1,888,550 | 1,881,209 | 1,802,338 |
| Other liabilities | 18 | 33,354 | 48,086 | 50,172 |
| Current tax liabilities | | 3,782 | 2,980 | 2,343 |
| Deferred tax liabilities | | 223 | 744 | 362 |
| Total liabilities | | 1,971,832 | 1,983,349 | 1,891,426 |
| Equity | | | | |
| Share capital | 23 | 200,031 | 200,031 | 200,031 |
| Legal reserve | 24(a) | 36,277 | 34,984 | 36,277 |
| Foreign exchange reserve | 24(b) | - | (130) | - |
| Available-for-sale fair value reserve | 24(c) | (3,011) | 3,881 | 1,083 |
| Retained earnings | | 76,824 | 67,824 | 71,125 |
| Net equity | | 310,121 | 306,590 | 308,516 |
| Total liabilities and equity | | 2,281,953 | 2,289,939 | 2,199,942 |
| Net assets per share - RO | | 0.155 | 0.153 | 0.154 |
| <i>Off-balance sheet items:</i> | | | | |
| Contingent liabilities and commitments | | | | |
| - Documentary credits | | 40,831 | 71,599 | 69,079 |
| - Guarantees and performance bonds | | 341,740 | 381,256 | 368,064 |
| - Others | 19 | 1,031,984 | 1,178,124 | 1,125,236 |
| | | 1,414,555 | 1,630,979 | 1,562,379 |

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 30 October 2016 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 nine months period ended 30 September 2016

| | Share capital RO'000 | Legal reserve RO'000 | Statutory reserve RO'000 | Foreign exchange reserve RO'000 | Available- for-sale fair value reserve RO'000 | Retained earnings RO'000 | Total RO'000 |
|---|----------------------------|----------------------------|--------------------------------|--|---|--------------------------------|-----------------|
| At 1 January 2015 | 200,031 | 34,984 | 1,446 | (497) | 4,597 | 69,316 | 309,877 |
| Total comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | - | - | - | 8,063 | 8,063 |
| Other comprehensive income / (loss) for the period | | | | | | | |
| Exchange differences | - | - | 23 | 367 | - | - | 390 |
| Net movement in fair value of available-for-sale investments (net of tax) | - | - | - | - | (716) | - | (716) |
| Total other comprehensive income / (loss) for the period | - | - | 23 | 367 | (716) | - | (326) |
| Total comprehensive income / (loss) for the period | - | - | 23 | 367 | (716) | 8,063 | 7,737 |
| Transfer to retained profits on sale of India operations | - | - | (1,469) | - | - | 1,469 | - |
| Transaction with shareholders, recorded directly in equity | | | | | | | |
| Dividend paid for 2014 | - | - | - | - | - | (11,024) | (11,024) |
| At 30 September 2015 | 200,031 | 34,984 | - | (130) | 3,881 | 67,824 | 306,590 |
| At 1 January 2016 | 200,031 | 36,277 | - | - | 1,083 | 71,125 | 308,516 |
| Total comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | - | - | - | 13,457 | 13,457 |
| Other comprehensive loss for the period | | | | | | | |
| Net movement in fair value of available-for-sale investments (net of tax) | - | - | - | - | (4,094) | - | (4,094) |
| Total other comprehensive loss for the period | - | - | - | - | (4,094) | - | (4,094) |
| Total comprehensive income / (loss) for the period | - | - | - | - | (4,094) | 13,457 | 9,363 |
| Transaction with shareholders, recorded directly in equity | | | | | | | |
| Dividend paid for 2015 | - | - | - | - | - | (7,758) | (7,758) |
| At 30 September 2016 | 200,031 | 36,277 | - | - | (3,011) | 76,824 | 310,121 |

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 nine months period ended 30 September 2016

| | <i>Notes</i> | Nine months ended 30 September 2016 RO'000 | Nine months ended 30 September 2015 RO'000 |
|--|--------------|--|--|
| Cash flows from operating activities | | | |
| Profit before tax | | 15,611 | 9,663 |
| Adjustments for: | | | |
| – Loan impairment charges and other credit risk provisions – net of recoveries | 8 | 4,814 | 2,929 |
| – Depreciation of property and equipment | 9 | 1,283 | 1,435 |
| – Impairment of financial investments | 7 | 56 | 22 |
| – Amortisation of intangible assets | 10 | 1,714 | 1,714 |
| – Net gain on sale of financial investments | 7 | (481) | (664) |
| – Gain on sale of property and equipment | 7 | - | (66) |
| – Amortisation of financial investment | | (364) | 50 |
| – Gain on sale of India operations | 7 | - | (815) |
| – Employer's current service cost, with interest | | 151 | 163 |
| – Finance leases charge | | 62 | 79 |
| – Effect of currency translation | | - | 60 |
| – Change in operating assets | 28(a) | (186,695) | (135,385) |
| – Change in operating liabilities | 28(b) | 69,673 | 37,731 |
| – Retirement benefits paid | | (198) | (208) |
| – Tax paid | | (920) | (915) |
| Net cash used in operating activities | | (95,294) | (84,207) |
| Cash flows from investing activities | | | |
| Purchase of financial investments | | (1,176,998) | (3,626,522) |
| Proceeds from maturity of financial investments | | 1,333,363 | 3,869,510 |
| Purchase of property and equipment | | (1,129) | (1,771) |
| Proceeds from sale of property and equipment | | - | 738 |
| Cash out flow from sale of India operation, net of cash and cash equivalents | | - | (2,544) |
| Net cash generated from investing activities | | 155,236 | 239,411 |
| Cash flows from financing activities | | | |
| Dividends paid | | (7,758) | (11,024) |
| Finance leases paid | | (294) | (288) |
| Net cash used in financing activities | | (8,052) | (11,312) |
| Net change in cash and cash equivalents | | 51,890 | 143,892 |
| Cash and cash equivalents at the beginning of the year | | 251,796 | 290,057 |
| Cash and cash equivalents at the end of the year | 28 | 303,686 | 433,949 |

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 2015 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) 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 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.

Notes to the unaudited interim condensed financial statements (continued)

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 2015.

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 except the following set out below:

IFRS 16, 'Leases', replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. It includes an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as it has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The mandatory application date for IFRS 16 is 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. The Bank is currently assessing the impact of this standard but it is not practicable to quantify the potential effect at the date of 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 2015.

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 2016 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.

Notes to the unaudited interim condensed financial statements (continued)

5 Interest income

Interest bearing assets earned interest at an overall annualized rate of 3.18% for the nine months period ended 30 September 2016 (30 September 2015 – 2.88%).

| | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 |
|---------------------------------|--|---|
| Loans and advances to customers | 41,841 | 39,020 |
| Financial investments | 3,363 | 1,712 |
| Due from banks | 211 | 402 |
| Others | 627 | 835 |
| | 46,042 | 41,969 |

6 Interest expense

For the nine months period ended 30 September 2016, the average overall annualised cost of funds was 0.39% (30 September 2015 – 0.37%).

| | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 |
|-------------------------|--|---|
| Deposits from customers | (5,567) | (5,050) |
| Due to banks | (4) | (270) |
| | (5,571) | (5,320) |

7 Other operating income - net

| | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 |
|--|--|---|
| Gain on sale of India operations | - | 815 |
| Gain on sale of financial investments | 481 | 664 |
| Gain on sale of property and equipment | - | 66 |
| Impairment of available-for-sale equity investment | (56) | (22) |
| Other income | 119 | 148 |
| | 544 | 1,671 |

Notes to the unaudited interim condensed financial statements (continued)

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

| | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 |
|---|--|---|
| Provided during the period – general (note 12) | (2,214) | (1,546) |
| Provided during the period – specific (note 12) | (5,763) | (5,267) |
| Provisions released / written back (note 12) | 1,780 | 1,956 |
| Adjustments as a result of fair value unwind | 291 | 450 |
| Reserved interest released | 31 | 237 |
| Written-off loans recovered | 1,443 | 1,640 |
| Bad debts directly written off to statement of comprehensive income | (382) | (399) |
| | (4,814) | (2,929) |

9 Operating expenses

| | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 |
|--|--|---|
| Employee compensation and benefits | (17,104) | (18,271) |
| General and administrative expenses* | (15,743) | (19,798) |
| Depreciation of property and equipment | (1,283) | (1,435) |
| | (34,130) | (39,504) |

* General and administrative expenses for the current period include the RO0.9m of “Mandoos Prize” draw expenses (30 September 2015: RO1m).

10 Amortisation of intangible assets

| | Nine months period ended 30 September 2016 RO'000 | Nine months period ended 30 September 2015 RO'000 |
|---|--|---|
| This represents amortisation of intangible assets as a result of business combination and is accounted for as follows : | | |
| Core deposits | (1,319) | (1,319) |
| Customer relationships | (395) | (395) |
| | (1,714) | (1,714) |

Notes to the unaudited interim condensed financial statements (continued)

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:

| | Nine months period ended 30 September 2016 | Nine months period ended 30 September 2015 | For the year ended 31 December 2015 |
|--|---|---|--|
| 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) | 13,457 | 8,063 | 12,930 |
| Earnings per share – basic and diluted (RO) | | | |
| - for the period | 0.007 | 0.004 | 0.006 |
| - annualised | 0.009 | 0.005 | 0.006 |

12 Loans and advances to customers - net

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

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|--|---|--------------------------------|-------------------------------|
| Overdrafts | 63,023 | 74,795 | 66,130 |
| Loans | 1,405,763 | 1,272,550 | 1,204,540 |
| Bills discounted / purchased | 8,152 | 30,929 | 13,394 |
| Gross loans and advances | 1,476,938 | 1,378,274 | 1,284,064 |
| Provision for loan impairment - specific | (27,487) | (28,462) | (28,380) |
| Provision for loan impairment - general* | (18,649) | (17,423) | (16,435) |
| Reserved interest | (35,698) | (43,570) | (38,441) |
| Net loans and advances | 1,395,104 | 1,288,819 | 1,200,808 |

* General provision comprises provision on a portfolio basis for loans and advances to customers.

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

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|---------------|---|--------------------------------|-------------------------------|
| 0-5% | 1,004,324 | 826,968 | 762,308 |
| 5-7% | 330,865 | 357,817 | 350,213 |
| 7-10% | 90,225 | 123,561 | 112,787 |
| 10-13% | 26,116 | 48,334 | 37,687 |
| more than 13% | 25,408 | 21,594 | 21,069 |
| | 1,476,938 | 1,378,274 | 1,284,064 |

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

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|-------------------|---|--------------------------------|-------------------------------|
| 0-6 months | 498,036 | 489,652 | 413,261 |
| 6-12 months | 9,988 | 5,480 | 3,865 |
| 1-3 years | 33,280 | 62,004 | 57,421 |
| 3-5 years | 232,577 | 194,460 | 132,156 |
| More than 5 years | 621,223 | 537,223 | 594,105 |
| | 1,395,104 | 1,288,819 | 1,200,808 |

12 Loans and advances to customers – net (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|---|---|--------------------------------|-------------------------------|
| Personal and consumer loans | 489,615 | 472,181 | 466,752 |
| Corporate and commercial | | | |
| Import trade | 227,013 | 167,611 | 165,280 |
| Construction | 73,936 | 80,245 | 86,934 |
| Manufacturing | 250,221 | 219,471 | 218,935 |
| Wholesale and retail trade | 53,471 | 47,095 | 45,217 |
| Export trade | - | 7,472 | - |
| Electricity, gas, water, transportation and communication | 113,426 | 98,608 | 90,854 |
| Services | 136,215 | 252,318 | 148,316 |
| Mining and quarrying | 88,138 | 20,848 | 12,528 |
| Others | 44,903 | 12,425 | 49,248 |
| | 987,323 | 906,093 | 817,312 |
| Financial institutions | - | - | - |
| Total gross loans and advances | 1,476,938 | 1,378,274 | 1,284,064 |
| Provision for loan impairment - specific | (27,487) | (28,462) | (28,380) |
| Provision for loan impairment - general | (18,649) | (17,423) | (16,435) |
| Reserved interest | (35,698) | (43,570) | (38,441) |
| Net loans and advances | 1,395,104 | 1,288,819 | 1,200,808 |
| Non performing loans | 68,926 | 78,990 | 71,881 |

Specific provision for loan impairment and reserved interest represents 91.7% (30 September 2015 – 91.2% and 31 December 2015 – 93%) of gross non-performing loans and advances.

Notes to the unaudited interim condensed financial statements (continued)

12 Loans and advances to customers (continued)

Provision for loan impairment and reserved interest

The movement on provision for loan impairment for the nine months period ended 30 September 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) | 5,763 | 2,214 | 7,977 |
| Provisions released / written back (note 8) | (1,780) | - | (1,780) |
| Written off during the period | (4,876) | - | (4,876) |
| Balance at 30 September 2016 | 27,487 | 18,649 | 46,136 |

The movement on provision for loan impairment for the nine months period ended 30 September 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 | (27) | - | (27) |
| Movement due to sale of India operations | - | (3) | (3) |
| Provided during the period (note 8) | 5,267 | 1,546 | 6,813 |
| Provisions released / written back (note 8) | (1,956) | - | (1,956) |
| Written off during the period | (11,014) | - | (11,014) |
| Balance at 30 September 2015 | 28,462 | 17,423 | 45,885 |

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

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 |
|---|--------------------------------|--------------------------------|
| Balance at the beginning of the period | 38,441 | 47,774 |
| Currency translation effect on opening balance | - | (4) |
| Reserved during the period | 5,938 | 6,976 |
| Released to the statement of comprehensive income | (498) | (688) |
| Written off during the period | (8,183) | (10,488) |
| Balance at end of the period | 35,698 | 43,570 |

The estimated fair value of loans and advances is RO 1,372m as of 30 September 2016 (30 September 2015 - RO1,278m and 31 December 2015 - RO1,180m).

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Notes to the unaudited interim condensed financial statements (continued)

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

Financial investments details are provided as follows:

| | Fair value 30 September 2016 RO'000 | Fair value 30 September 2015 RO'000 | Fair value 31 December 2015 RO'000 | Carrying value 30 September 2016 RO'000 | Carrying value 30 September 2015 RO'000 | Carrying value 31 December 2015 RO'000 | Cost 30 September 2016 RO'000 | Cost 30 September 2015 RO'000 | Cost 31 December 2015 RO'000 |
|--|--|---|--|--|--|---|--|---|--|
| Marketable securities – MSM | | | | | | | | | |
| Finance | - | 2,437 | 2,288 | - | 2,437 | 2,288 | - | 1,911 | 1,911 |
| Insurance | 372 | 398 | 398 | 372 | 398 | 398 | 330 | 340 | 340 |
| Industrial | - | 47 | - | - | 47 | - | - | 33 | - |
| Government bonds | 82,488 | 85,438 | 85,424 | 82,488 | 85,438 | 85,424 | 86,522 | 85,091 | 85,036 |
| | 82,860 | 88,320 | 88,110 | 82,860 | 88,320 | 88,110 | 86,852 | 87,375 | 87,287 |
| Marketable securities – Foreign by Sector | | | | | | | | | |
| Foreign shares | - | 5,593 | - | - | 5,593 | - | - | 2,340 | - |
| | - | 5,593 | - | - | 5,593 | - | - | 2,340 | - |
| Unquoted and other investments | | | | | | | | | |
| Treasury bills | 386,277 | 322,440 | 540,957 | 386,277 | 322,440 | 540,957 | 385,664 | 322,419 | 540,496 |
| Investment fund units | 3,265 | 3,772 | 3,526 | 3,265 | 3,772 | 3,526 | 3,321 | 3,590 | 3,590 |
| Unquoted Omani shares* | 260 | 1,010 | 260 | 260 | 1,010 | 260 | 260 | 1,010 | 260 |
| Unquoted foreign shares* | 26 | 67 | 67 | 26 | 67 | 67 | 26 | 67 | 67 |
| | 389,828 | 327,289 | 544,810 | 389,828 | 327,289 | 544,810 | 389,271 | 327,086 | 544,413 |
| Total | 472,688 | 421,202 | 632,920 | 472,688 | 421,202 | 632,920 | 476,123 | 416,801 | 631,700 |

*Unquoted Omani shares and unquoted foreign shares are carried at cost.

Notes to the unaudited interim condensed financial statements (continued)

13 Financial investments (continued)

| Details of AFS investments are as follows: | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|--|---|--------------------------------|-------------------------------|
| Cost of: | | | |
| Quoted - Equity and other investments | 86,852 | 89,715 | 87,287 |
| Unquoted and other investments | 389,271 | 327,086 | 544,413 |
| | 476,123 | 416,801 | 631,700 |
| Revaluation (loss) / gain of: | | | |
| Quoted equity and other securities | (3,435) | 4,401 | 1,220 |
| | 472,688 | 421,202 | 632,920 |

14 Other assets

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|---------------------------------------|---|--------------------------------|-------------------------------|
| Acceptances | 16,711 | 29,472 | 35,477 |
| Derivatives - positive mark-to-market | 6,663 | 4,582 | 3,733 |
| Prepayments and accrued income | 866 | 1,515 | 1,159 |
| Others | 5,334 | 1,210 | 1,620 |
| | 29,574 | 36,779 | 41,989 |

15 Intangible assets

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 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 | (9,902) | (7,617) | (8,188) |
| | 6,095 | 8,380 | 7,809 |

16 Property and equipment

RO1.1m of property and equipment were added during the period (30 September 2015: RO1.8m). Property and equipment disposed of during the period was nil. (30 September 2015: RO1.3m of property and equipment were disposed of - sold (RO0.7) and written off (RO0.6m)).

17 Deposits from customers

| Deposits details are as follows: | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|----------------------------------|---|--------------------------------|-------------------------------|
| Current and call | 931,921 | 1,005,811 | 965,245 |
| Savings | 466,214 | 469,685 | 470,161 |
| Time deposits | 487,496 | 403,008 | 364,589 |
| Others | 2,919 | 2,705 | 2,343 |
| | 1,888,550 | 1,881,209 | 1,802,338 |

Notes to the unaudited interim condensed financial statements (continued)

17 Deposits from customers (continued)

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

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|--------------|---|--------------------------------|-------------------------------|
| 0-6 months | 657,014 | 733,560 | 667,110 |
| 6-12 months | 343,924 | 265,408 | 264,531 |
| 1-3 years | 342,501 | 142,831 | 141,645 |
| 3-5 years | 149,340 | 327,531 | 327,574 |
| Over 5 years | 395,771 | 411,879 | 401,478 |
| | 1,888,550 | 1,881,209 | 1,802,338 |

The interest rate bands of deposits are as follows:

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|------|---|--------------------------------|-------------------------------|
| 0-2% | 1,611,096 | 1,693,092 | 1,614,614 |
| 2-4% | 277,249 | 188,106 | 187,724 |
| 4-6% | 205 | 11 | - |
| | 1,888,550 | 1,881,209 | 1,802,338 |

18 Other liabilities

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|---------------------------------------|---|--------------------------------|-------------------------------|
| Derivatives – negative mark-to-market | 211 | 470 | 204 |
| Retirement benefit liability | 589 | 398 | 636 |
| Acceptances | 16,711 | 29,472 | 35,477 |
| Provisions | 208 | 1,061 | 535 |
| Accruals and deferred income | 3,000 | 4,336 | 4,930 |
| Obligation under finance lease | 732 | 938 | 964 |
| Others | 11,903 | 11,411 | 7,426 |
| | 33,354 | 48,086 | 50,172 |

19 Contingent liabilities, commitments and derivatives

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|---|---|--------------------------------|-------------------------------|
| Forward forex contracts | 260,423 | 366,308 | 266,857 |
| Interest rate swaps - notional | 77,000 | 89,738 | 77,000 |
| Undrawn unconditionally cancellable commitments | 594,250 | 546,581 | 576,767 |
| Undrawn unconditionally non-cancellable commitments | 100,311 | 175,497 | 204,612 |
| | 1,031,984 | 1,178,124 | 1,125,236 |

As at 30 September 2016, 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.

Notes to the unaudited interim condensed financial statements (continued)

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

| | Valuation techniques | | Total RO'000 |
|---|---|--|-----------------|
| | Quoted market price Level 1 RO'000 | Using observable inputs Level 2 RO'000 | |
| At 30 September 2016 | | | |
| Assets | | | |
| Derivatives | - | 6,663 | 6,663 |
| Financial investments: available-for-sale | 82,860 | 389,542 | 472,402 |
| Liabilities | | | |
| Derivatives | - | 211 | 211 |
| At 30 September 2015 | | | |
| Assets | | | |
| Derivatives | - | 4,582 | 4,582 |
| Financial investments: available-for-sale | 93,913 | 326,212 | 420,125 |
| Liabilities | | | |
| Derivatives | - | 470 | 470 |
| At 31 December 2015 | | | |
| Assets | | | |
| Derivatives | - | 3,733 | 3,733 |
| Financial investments: available-for-sale | 88,110 | 544,483 | 632,593 |
| Liabilities | | | |
| Derivatives | - | 204 | 204 |

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 for the year ended 31 December 2015.

Notes to the unaudited interim condensed financial statements (continued)

21 Asset liability mismatch

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

| Maturities | 30 September 2016 | | | 30 September 2015 | | | 31 December 2015 | | |
|-------------------|-------------------|------------------------|-----------|-------------------|------------------------|-----------|------------------|------------------------|-----------|
| | 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 | 1,173,831 | 739,336 | 434,495 | 1,153,239 | 835,202 | 318,037 | 1,092,553 | 755,864 | 336,689 |
| 6-12 months | 98,127 | 357,864 | (259,737) | 150,201 | 274,475 | (124,274) | 166,033 | 278,326 | (112,293) |
| 1-3 years | 64,881 | 342,501 | (277,620) | 102,871 | 142,831 | (39,960) | 97,689 | 141,645 | (43,956) |
| 3-5 years | 278,212 | 149,340 | 128,872 | 268,720 | 327,531 | (58,811) | 194,484 | 327,574 | (133,090) |
| more than 5 years | 666,902 | 692,912 | (26,010) | 614,908 | 709,900 | (94,992) | 649,183 | 696,533 | (47,350) |
| | 2,281,953 | 2,281,953 | - | 2,289,939 | 2,289,939 | - | 2,199,942 | 2,199,942 | - |

22 Exposure to credit risk

| | Loans and advances (As per CBO) | | | Due from banks | | | Financial investments | | |
|--|---------------------------------|------------------|------------------|----------------|----------------|---------------|-----------------------|----------------|----------------|
| | 30 | 30 | 31 | 30 | 30 | 31 | 30 | 30 | 31 |
| | September 2016 | September 2015 | December 2015 | September 2016 | September 2015 | December 2015 | September 2016 | September 2015 | December 2015 |
| | RO'000 | RO'000 | RO'000 | RO'000 | RO'000 | RO'000 | RO'000 | RO'000 | RO'000 |
| Individually impaired – non performing | 68,926 | 78,990 | 71,881 | - | - | - | 251 | 69 | - |
| Provision for loan impairment specific and reserved interest | (63,185) | (72,032) | (66,821) | - | - | - | (56) | (22) | - |
| Carrying amount of non-performing | 5,741 | 6,958 | 5,060 | - | - | - | 195 | 47 | - |
| Past due and not impaired | 25,184 | 15,451 | 18,971 | - | - | - | - | - | - |
| Neither past due nor impaired | 1,382,828 | 1,283,833 | 1,193,212 | 144,019 | 186,368 | 10,271 | 472,493 | 421,155 | 632,920 |
| General provision | (18,649) | (17,423) | (16,435) | - | - | - | - | - | - |
| Total carrying amount | 1,395,104 | 1,288,819 | 1,200,808 | 144,019 | 186,368 | 10,271 | 472,688 | 421,202 | 632,920 |

23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 September 2015 and 31 December 2015 – 2,000,312,790 shares of RO0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO0.100 each (30 September 2015 and 31 December 2015 – 7,500 million shares of RO 0.100 each).

Major Shareholder

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

| | 30 September 2016 Number of shares | 30 September 2015 Number of shares | 31 December 2015 Number of shares |
|-------------------------------|---|---|--|
| HSBC Middle East Holdings BV | 1,020,159,523 | - | 1,020,159,523 |
| HSBC Bank Middle East Limited | - | 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) 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. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in other comprehensive income are reclassified to the statement of profit or loss as a reclassification adjustment when the gain or loss on disposal is recognised.

(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.

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 to the unaudited interim condensed financial statements (continued)

25 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:

| | Parent entity RO'000 | Other related group entities RO'000 | Directors RO'000 | Others RO'000 | Total RO'000 |
|---|----------------------------|--|---------------------|------------------|-----------------|
| 30 September 2016 | | | | | |
| Loans and advances | - | - | - | 18,072 | 18,072 |
| Current, deposit and other accounts | - | 11,188 | 85 | 11,991 | 23,264 |
| Letters of credit and guarantees | - | 78,743 | - | 6,325 | 85,068 |
| Due from banks | - | 31,455 | - | - | 31,455 |
| Due to banks | - | 22,735 | - | - | 22,735 |
| For the period ended 30 September 2016 | | | | | |
| Net fee income | - | 28 | - | - | 28 |
| Other operating expenses | - | (7,629) | (16) | (74) | (7,719) |
| Purchase of property and equipment | - | - | - | (6) | (6) |
| | Parent entity RO'000 | Other related group entities RO'000 | Directors RO'000 | Others RO'000 | Total RO'000 |
| 30 September 2015 | | | | | |
| Loans and advances | - | - | - | 41,077 | 41,077 |
| Current, deposit and other accounts | - | 10,159 | 34 | 18,540 | 28,733 |
| Letters of credit and guarantees | - | 73,076 | - | 9,867 | 82,943 |
| Due from banks | 24,907 | 20,709 | - | - | 45,616 |
| Due to banks | 4,418 | 9,117 | - | - | 13,535 |
| For the period ended 30 September 2015 | | | | | |
| Net fee expenses | - | (7) | - | - | (7) |
| Other operating expenses | (5,254) | (3,905) | (12) | (149) | (9,320) |
| Other income | - | - | 9 | - | 9 |
| Purchase of property and equipment | - | - | - | (2) | (2) |

Related party loans and advances bear interest at rates between 1.45% p.a. and 6% p.a. (30 September 2015: between 1.3% p.a. and 6.0% p.a.). Related party deposits bear interest at rates between 0.20% p.a. and 1.25% p.a. (30 September 2015: between 0.25% p.a. and 1.25% p.a.).

Compensation of key management personnel

| | Nine months ended 30 September 2016 RO'000 | Nine months ended 30 September 2015 RO'000 |
|---|---|--|
| Wages, salaries and other short term benefits | 1,257 | 1,393 |
| Post-employment benefits | 188 | 310 |
| | 1,445 | 1,703 |

Notes to the unaudited interim condensed financial statements (continued)

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 2015.

| | 30 September 2016 | | | | Total RO'000 |
|--|-------------------|----------------|----------------|-----------------------|------------------|
| | CMB RO'000 | RBWM RO'000 | GB&M RO'000 | Unallocated RO'000 | |
| Net interest income | | | | | |
| - External | 15,527 | 21,680 | 3,326 | (62) | 40,471 |
| - Internal | 121 | 1,429 | (1,490) | (60) | - |
| | <u>15,648</u> | <u>23,109</u> | <u>1,836</u> | <u>(122)</u> | <u>40,471</u> |
| Net fee income | 5,160 | 3,101 | 872 | (120) | 9,013 |
| Net trading income | 1,744 | 1,116 | 3,149 | 11 | 6,020 |
| Other operating income | 295 | 309 | 47 | 114 | 765 |
| Total operating income | <u>22,847</u> | <u>27,635</u> | <u>5,904</u> | <u>(117)</u> | <u>56,269</u> |
| Loan impairment (charges) and other credit risk provisions - net of recoveries | (534) | (4,280) | - | - | (4,814) |
| Net operating income | <u>22,313</u> | <u>23,355</u> | <u>5,904</u> | <u>(117)</u> | <u>51,455</u> |
| Total operating expenses | (10,778) | (23,113) | (1,458) | (495) | (35,844) |
| Profit / (loss) before tax | <u>11,535</u> | <u>242</u> | <u>4,446</u> | <u>(612)</u> | <u>15,611</u> |
| Reportable segment assets | <u>943,030</u> | <u>476,724</u> | <u>773,630</u> | <u>88,569</u> | <u>2,281,953</u> |
| Reportable segment liabilities | <u>1,232,726</u> | <u>677,507</u> | <u>27,356</u> | <u>34,243</u> | <u>1,971,832</u> |

The main items reported in the unallocated category are cash in hand, fixed assets, other assets and other liabilities.

| | 30 September 2015 | | | | Total RO'000 |
|--|-------------------|----------------|----------------|-----------------------|------------------|
| | CMB RO'000 | RBWM RO'000 | GB&M RO'000 | Unallocated RO'000 | |
| Net interest income | | | | | |
| - External | 12,810 | 22,171 | 1,668 | - | 36,649 |
| - Internal | (831) | 876 | 40 | (85) | - |
| | <u>11,979</u> | <u>23,047</u> | <u>1,708</u> | <u>(85)</u> | <u>36,649</u> |
| Net fees and commission | 5,204 | 3,488 | 1,013 | - | 9,705 |
| Net trading income | 1,798 | 1,009 | 2,598 | 86 | 5,491 |
| Other operating income | 774 | 931 | 58 | 202 | 1,965 |
| Total operating income | <u>19,755</u> | <u>28,475</u> | <u>5,377</u> | <u>203</u> | <u>53,810</u> |
| Loan impairment (charges) and other credit risk provisions - net of recoveries | (35) | (2,894) | - | - | (2,929) |
| Net operating income | <u>19,720</u> | <u>25,581</u> | <u>5,377</u> | <u>203</u> | <u>50,881</u> |
| | | (26,428) | | | |
| Total operating expenses | (12,980) |) | (1,338) | (472) | (41,218) |
| Profit / (loss) before tax | <u>6,740</u> | <u>(847)</u> | <u>4,039</u> | <u>(269)</u> | <u>9,663</u> |
| Reportable segment assets | <u>867,563</u> | <u>461,543</u> | <u>844,308</u> | <u>116,525</u> | <u>2,289,939</u> |
| Reportable segment liabilities | <u>1,186,333</u> | <u>741,702</u> | <u>24,519</u> | <u>30,795</u> | <u>1,983,349</u> |

Notes to the unaudited interim condensed financial statements (continued)

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 2016 (30 September 2015 and 31 December 2015: 12.625%) in accordance with CBO stipulated guidelines.

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|---------------------------------|---|--------------------------------|-------------------------------|
| CET 1 / Tier 1 capital | 289,930 | 281,340 | 289,930 |
| Tier 2 capital (T2) | 16,682 | 17,862 | 16,682 |
| Total regulatory capital | 306,612 | 299,202 | 306,612 |
| Risk-weighted assets | 1,711,460 | 1,651,995 | 1,578,818 |
| CET 1 / Tier 1 capital ratio | 16.94% | 17.03% | 18.36% |
| Total capital ratio | 17.92% | 18.11% | 19.42% |

28 Cash and cash equivalents

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 | 31 December 2015 RO'000 |
|---|---|--------------------------------|-------------------------------|
| <i>Unaudited interim condensed statement of financial position comprises:</i> | | | |
| Cash and balances with central banks | 205,590 | 318,037 | 277,736 |
| Due from banks | 144,019 | 186,368 | 10,271 |
| Due to banks | (45,923) | (50,330) | (36,211) |
| | 303,686 | 454,075 | 251,796 |
| Adjustment for items maturing after three months from date of acquisition and restricted balances | - | (20,126) | - |
| | 303,686 | 433,949 | 251,796 |
| <i>Cash and cash equivalent comprise:</i> | | | |
| Cash and balances with central banks | 205,590 | 302,151 | 277,736 |
| Due from banks | 144,019 | 182,128 | 10,271 |
| Due to banks | (45,923) | (50,330) | (36,211) |
| Total | 303,686 | 433,949 | 251,796 |

28(a) Change in operating assets

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 |
|---|---|--------------------------------|
| Change in loans and advances to customers-net | (199,110) | (130,476) |
| Change in due from banks | - | (4,240) |
| Change in other assets | 12,415 | (669) |
| | (186,695) | (135,385) |

28(b) Change in operating liabilities

| | 30 September 2016 RO'000 | 30 September 2015 RO'000 |
|-----------------------------------|---|--------------------------------|
| Change in deposits from customers | 86,212 | 36,536 |
| Change in other liabilities | (16,539) | 1,195 |
| | 69,673 | 37,731 |

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 70% for 2016 (for 30 September 2015 : 60%) in accordance with CBO stipulated guidelines.

Liquidity coverage ratio disclosure for the period ended 30 September 2016:

| | 30 September 2016 | | 30 September 2015 | |
|--|--|--|--|--|
| | 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) | - | 544,307 | - | 582,641 |
| Cash outflows | | | | |
| 2 Retail deposits and deposits from small business customers, of which: | 687,802 | 51,739 | 738,397 | 56,734 |
| 3 -Stable deposits | 340,834 | 17,042 | 342,117 | 17,106 |
| 4 -Less stable deposits | 346,968 | 34,697 | 396,280 | 39,628 |
| 5 Unsecured wholesale funding, of which: | 1,264,040 | 519,450 | 1,192,200 | 504,221 |
| 6 -Operational deposits (all counterparties) and deposits in networks of cooperative banks | - | - | - | - |
| 7 -Non-operational deposits (all counterparties) | 1,264,040 | 519,450 | 1,192,200 | 504,221 |
| 8 -Unsecured debt | - | - | - | - |
| 9 Secured wholesale funding | - | - | - | - |
| 10 Additional requirements, of which | 85,443 | 8,287 | 199,406 | 19,701 |
| 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 | 85,443 | 8,287 | 199,406 | 19,701 |
| 14 Other contractual funding obligations | - | - | - | - |
| 15 Other contingent funding obligations | 940,013 | 47,001 | 1,005,685 | 50,284 |
| 16 Total cash outflows (2+5+10+15) | - | 626,477 | - | 630,940 |
| Cash inflows | | | | |
| 17 Secured lending (e.g. reverse repos) | - | - | - | - |
| 18 Inflows from fully performing exposures | 277,995 | 197,540 | 328,608 | 238,869 |
| 19 Other cash inflows | - | - | - | - |
| 20 Total cash inflows (17+18+19) | 277,995 | 197,540 | 328,608 | 238,869 |
| | | | | Total Adjusted Value |
| 21 Total HQLA | | 544,307 | | 582,641 |
| 22 Total net cash outflows (16-20) | | 428,937 | | 392,071 |
| 23 Liquidity coverage ratio (21/22) | | 127% | | 149% |

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

30 Corresponding figures

Certain corresponding figures for 2015 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.