



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

**Interim Condensed Financial Report**  
**30 September 2017**

**HSBC** 

**Interim Condensed Financial Report – 30 September 2017**

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**Presentation of information**

This document comprises the Interim Condensed Financial Report – 30 September 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 nine month ended 30 September 2017**

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 2017. It also gives me great pleasure to report that we have been nominated as the 'Safest bank in Oman' for the second consecutive year by Global Finance Magazine. This is in addition to other important accolades that I am going to detail in this report.

### **Performance Summary**

Our year to date performance shows a 1.5% increase in net profit to RO13.7m compared to RO13.5m for the same period in 2016, mainly due to lower loan impairment charges.

Net operating income, before loan impairment charges, decreased by 1.8% to RO55.3m compared to RO56.3m for the same period last year.

Net interest income declined by 1.7% to RO39.8m for the period ended 30 September 2017 compared to RO40.5m for the same period in 2016. This is mainly due to higher interest expenses on corporate deposits. Net fee income decreased by 8.9% to RO8.2m for the period ended 30 September 2017, due to lower credit structuring fees from corporate customers and lower cards and wealth revenue from retail customers.

The net trading income increased by 20.0% to RO7.2m compared to RO6.0m for the same period in 2016 mainly due to higher trading volumes through from our client base.

A net charge of RO2.6m has been reported for loan impairment charges compared to a net charge of RO4.8m for the same period in 2016. This was mainly due to a release from the general provision of RO1.0m due to the overall reduction in corporate loans and this was partly offset by a net charge of RO0.3m in Wholesale and RO3.3m in the Retail portfolio.

Operating expenses increased by 1.4% to RO36.3m compared to RO35.8m for the same period in 2016 due to some one-off expenses.

Loans and advances, net of provisions and reserved interest, fell by 4.5% to RO1,332.4m compared to RO1,395.1m as at 30 September 2016, mainly due to the aforementioned reduction in corporate loans.

Customer deposits increased by 6.1% to RO2,003.4m compared to RO1,888.6m as at 30 September 2016.

HBON's capital adequacy ratio stood at 15.9% as at 30 September 2017 compared to 17.9% as at 30 September 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**

In Retail Banking and Wealth Management, we continued our focus on acquisitions in the premier segment with a special focus on mortgages and "New to Bank" customers. We also ran a spend campaign for our debit card holders, where they had a chance to win a RO100 cash prize through a lucky draw. During the quarter we ran a digital campaign with the objective of improving our customers' digital engagement, and this has resulted in an increase of 30% in the digital transactions processed by the Bank compared to 2Q 2017. During the quarter we also introduced the Mobile Clearing System functionality which allows customers to make instant money transfers to certain local banks within the country using the beneficiary's mobile number.

In the Wholesale Banking business, HSBC acted as Joint Coordinator and Initial Mandated Lead Arranger on Oman Oil Company Exploration & Production's (OOCEP) debut financing to secure USD1 billion from the International Debt Markets. This transaction was structured as a five-year pre-export finance facility extended to OOCEP via an offshore SPV (the borrower), and secured against future sales of crude exports. The transaction demonstrates HSBC's continued ability to execute and deliver structured and secured trade, and receivable finance transactions across the MENA region and beyond.

We were delighted to win, for the 7th consecutive year, the Euromoney Award as the “Best Domestic 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. This Award from Euromoney follows on from their accolade in awarding the Bank as ‘Best Bank in Oman’ earlier this year.

As already mentioned, we were delighted to be ranked ‘Safest Bank in Oman’ in 2017 by Global Finance Magazine in its annual ranking of the World's Safest Banks.

#### **Investing in our people and the community**

In the third quarter, our focus on Fraud Control and Anti Money Laundering & Sanctions training continued with the aim of enhancing the overall knowledge and understanding of the staff about the Anti Money Laundering and Sanctions compliance. This is in addition to a number of virtual and e.learning programmes that took place during the Quarter.

Separately, staff were given the opportunity to share confidential feedback in a staff survey that measures staff engagement, their trust in the management and in the Bank’s strategy. A summary feedback showed positive trends compared to last year, which is a positive indicators in terms of how HSBC Bank Oman is operating in the eyes of its staff.

Under the Bank’s Corporate Sustainability agenda, and in cooperation with the Oman Association for the Hearing Impaired, HSBC Bank Oman conducted a sign language training programme for 40 individuals who have family members suffering from hearing disabilities. The training was conducted over two weeks and aimed to help the trainees to obtain the sign language skills that can help them communicate better with their family members.

#### **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. In this regards, I would like to congratulate H.E Taher bin Salim Al Amri, the recently appointed Executive president of CBO, while offering my thanks to H.E Hamood Sangour Al Zadjali, following his recent retirement from the CBO, for his able leadership of the CBO over the last 26 years.

I would like to take this opportunity to express our sincere best wishes to His Majesty Sultan Qaboos Bin Said on the occasion of the upcoming National Day, confirming our continuous and full support as His Majesty continues to lead the Sultanate to further prosperity and development.

**Sir Sherard Cowper-Coles**  
**Chairman**

Summary of unaudited results for the nine month period ended 30 September 2017

|   | <b>30 September 2017</b>       | 30 September 2016       |            |
|---|--------------------------------|-------------------------|------------|
|   | <b>RO'000</b>                  | RO'000                  | Change (%) |
| <b>Loans and advances net of provisions and reserved interest</b> | <b>1,332,400</b>               | 1,395,104               | (4.5)      |
| <b>Customer deposits</b>  | <b>2,003,361</b>               | 1,888,550               | 6.1        |
| <b>Net assets</b>   | <b>317,855</b>                 | 310,121                 | 2.5        |
| <b>* Net assets per share</b>                                     | <b>0.159</b>                   | 0.155                   | 2.6        |
|   | <b>Nine month period ended</b> | Nine month period ended |            |
|   | <b>30 September 2017</b>       | 30 September 2016       | Change (%) |
|   | <b>RO'000</b>                  | RO'000                  |            |
| <b>Net interest income</b>  | <b>39,781</b>                  | 40,471                  | (1.7)      |
| <b>Profit for the period</b>                                      | <b>13,659</b>                  | 13,457                  | 1.5        |
| <b>** Earnings per share (annualised)</b>                         | <b>0.009</b>                   | 0.009                   | -          |
| <b>*** Capital adequacy ratio (CAR)</b>                           | <b>15.90%</b>                  | 17.92%                  | (2.0)      |

\* *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 at 30 September 2017, and the related interim condensed statement of comprehensive income for the three month and nine month periods 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").

29 October 2017

Muscat, Sultanate of Oman



**Unaudited interim condensed statement of comprehensive income for the nine month period ended  
30 September 2017**

|  |    | <b>Three month<br/>period ended<br/>30<br/>September<br/>2017<br/>RO'000</b> | Three month<br>period ended<br>30<br>September<br>2016<br>RO'000 | <b>Nine month<br/>period ended<br/>30<br/>September<br/>2017<br/>RO'000</b> | Nine month<br>period ended<br>30<br>September<br>2016<br>RO'000 |
|--|----|--|--|---|---|
| Interest income  | 5  | 16,281   | 16,076   | 46,506  | 46,042  |
| Interest expense   | 6  | (2,280)  | (2,141)  | (6,725)   | (5,571)   |
| <b>Net interest income</b>   |    | <b>14,001</b>  | 13,935   | <b>39,781</b>   | 40,471  |
| Fee income   |    | 3,864  | 3,206  | 10,215  | 10,960  |
| Fee expense  |    | (725)  | (701)  | (1,999)   | (1,947)   |
| <b>Net fee income</b>  |    | <b>3,139</b>   | 2,505  | <b>8,216</b>  | 9,013   |
| Net trading income   |    | 2,432  | 1,906  | 7,162   | 6,020   |
| Dividend income  |    | -  | 105  | 111   | 221   |
| Other operating income - net   | 7  | (46)   | 385  | 38  | 544   |
| <b>Net operating income before loan<br/>impairment charges and other credit<br/>risk provisions</b>            |    | <b>19,526</b>  | 18,836   | <b>55,308</b>   | 56,269  |
| Loan impairment charges and other credit<br>risk provisions - net of recoveries                                | 8  | (1,274)  | (1,381)  | (2,610)   | (4,814)   |
| <b>Net operating income</b>  |    | <b>18,252</b>  | 17,455   | <b>52,698</b>   | 51,455  |
| Operating expenses   | 9  | (11,185)   | (10,443)   | (34,607)  | (34,130)  |
| Amortisation of intangible assets  | 10 | (571)  | (571)  | (1,714)   | (1,714)   |
| <b>Total operating expenses</b>  |    | <b>(11,756)</b>  | (11,014)   | <b>(36,321)</b>   | (35,844)  |
| <b>Profit before tax</b>   |    | <b>6,496</b>   | 6,441  | <b>16,377</b>   | 15,611  |
| Tax expense  |    | (1,054)  | (839)  | (2,718)   | (2,154)   |
| <b>Profit for the period</b>   |    | <b>5,442</b>   | 5,602  | <b>13,659</b>   | 13,457  |
| <b>Other comprehensive income / (loss)</b>   |    |  |  |   |   |
| <b>Items that will be reclassified<br/>subsequently to profit or loss when<br/>specific conditions are met</b> |    |  |  |   |   |
| Available-for-sale investment  |    |  |  |   |   |
| -Fair value gain / (loss)  |    | 425  | 248  | 507   | (4,467)   |
| -Fair value gain reclassified to profit or<br>loss on disposal   |    | -  | (50)   | (37)  | (245)   |
| -Amount reclassified to profit or loss in<br>respect of impairment   |    | -  | 56   | -   | 56  |
| -Income tax  |    | (63)   | (23)   | 18  | 562   |
| <b>Other comprehensive income / (loss) for<br/>the period - net of tax</b>                                     |    | <b>362</b>   | 231  | <b>488</b>  | (4,094)   |
| <b>Total comprehensive income for the<br/>period</b>   |    | <b>5,804</b>   | 5,833  | <b>14,147</b>   | 9,363   |
| <b>Earnings per share – basic and diluted<br/>(RO)</b>   | 11 |  |  |   |   |
| -for the period  |    | 0.003  | 0.003  | 0.007   | 0.007   |
| -annualised  |    | 0.011  | 0.011  | 0.009   | 0.009   |

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 2017

|   |              | At 30 September<br>2017 | At 30 September<br>2016 | Audited<br>At 31 December<br>2016 |
|---|--------------|-------------------------|-------------------------|-----------------------------------|
|   | <i>Notes</i> | RO'000                  | RO'000                  | RO'000                            |
| <b>Assets</b>                                 |              |                         |                         |                                   |
| Cash and balances with central banks          |              | 131,613                 | 205,590                 | 284,947                           |
| Due from banks                                |              | 51,556                  | 144,019                 | 80,222                            |
| Loans and advances to customers - net         | 12           | 1,332,400               | 1,395,104               | 1,418,415                         |
| Financial investments                         | 13           | 839,615                 | 472,688                 | 412,969                           |
| Other assets                                  | 14           | 28,916                  | 29,574                  | 23,299                            |
| Intangible assets                             | 15           | 3,810                   | 6,095                   | 5,524                             |
| Property and equipment                        | 16           | 25,857                  | 26,763                  | 26,504                            |
| Deferred tax assets                           |              | 2,039                   | 2,120                   | 2,013                             |
| <b>Total assets</b>                           |              | <b>2,415,806</b>        | <b>2,281,953</b>        | <b>2,253,893</b>                  |
| <b>Liabilities and equity</b>                 |              |                         |                         |                                   |
| <b>Liabilities</b>                            |              |                         |                         |                                   |
| Due to banks                                  |              | 49,553                  | 45,923                  | 37,426                            |
| Deposits from customers                       | 17           | 2,003,361               | 1,888,550               | 1,866,655                         |
| Other liabilities                             | 18           | 39,474                  | 33,354                  | 30,021                            |
| Current tax liabilities                       |              | 5,563                   | 3,782                   | 6,081                             |
| Deferred tax liabilities                      |              | -                       | 223                     | -                                 |
| <b>Total liabilities</b>                      |              | <b>2,097,951</b>        | <b>1,971,832</b>        | <b>1,940,183</b>                  |
| <b>Equity</b>                                 |              |                         |                         |                                   |
| 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)        | (2,241)                 | (3,011)                 | (2,729)                           |
| Retained earnings                             |              | 82,098                  | 76,824                  | 78,441                            |
| <b>Net equity</b>                             |              | <b>317,855</b>          | <b>310,121</b>          | <b>313,710</b>                    |
| <b>Total liabilities and equity</b>           |              | <b>2,415,806</b>        | <b>2,281,953</b>        | <b>2,253,893</b>                  |
| <b>Net assets per share - RO</b>              |              | <b>0.159</b>            | 0.155                   | 0.157                             |
| <b>Off-balance sheet items:</b>               |              |                         |                         |                                   |
| <b>Contingent liabilities and commitments</b> |              |                         |                         |                                   |
| - Documentary credits                         |              | 60,986                  | 40,831                  | 52,976                            |
| - Guarantees and performance bonds            |              | 343,450                 | 341,740                 | 356,423                           |
| - Others                                      | 19           | 985,947                 | 1,031,984               | 903,659                           |
|   |              | <b>1,390,383</b>        | <b>1,414,555</b>        | <b>1,313,058</b>                  |

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 29 October 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 nine month period ended 30 September 2017

|   | Share capital<br>RO'000 | Legal reserve<br>RO'000 | Available-for-<br>sale fair value<br>reserve<br>RO'000 | Retained<br>earnings<br>RO'000 | Total<br>RO'000 |
|---|-------------------------|-------------------------|--|--------------------------------|-----------------|
| At 1 January 2016   | 200,031                 | 36,277                  | 1,083  | 71,125                         | 308,516         |
| Total comprehensive income / (loss) 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 (loss) / income 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         |
| <b>At 1 January 2017</b>  | <b>200,031</b>          | <b>37,967</b>           | <b>(2,729)</b>   | <b>78,441</b>                  | <b>313,710</b>  |
| <b>Total comprehensive income for the period</b>                          |                         |                         |  |                                |                 |
| Profit for the period   | -                       | -                       | -  | 13,659                         | 13,659          |
| <b>Other comprehensive income for the period</b>                          |                         |                         |  |                                |                 |
| Net movement in fair value of available-for-sale investments (net of tax) | -                       | -                       | 488  | -                              | 488             |
| <b>Total other comprehensive income for the period</b>                    | <b>-</b>                | <b>-</b>                | <b>488</b>   | <b>-</b>                       | <b>488</b>      |
| <b>Total comprehensive income for the period</b>                          | <b>-</b>                | <b>-</b>                | <b>488</b>   | <b>13,659</b>                  | <b>14,147</b>   |
| Transaction with shareholders, recorded directly in equity                |                         |                         |  |                                |                 |
| Dividend paid for 2016  | -                       | -                       | -  | (10,002)                       | (10,002)        |
| <b>At 30 September 2017</b>   | <b>200,031</b>          | <b>37,967</b>           | <b>(2,241)</b>   | <b>82,098</b>                  | <b>317,855</b>  |

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 month period ended 30 September 2017

|   |              | Nine month<br>period ended<br>30 September<br>2017<br>RO'000 | Nine month<br>period ended<br>30 September<br>2016<br>RO'000 |
|---|--------------|--|--|
|   | <i>Notes</i> |  |  |
| <b>Cash flows from operating activities</b>                                   |              |  |  |
| Profit before tax   |              | 16,377   | 15,611   |
| Adjustments for:  |              |  |  |
| -Loss on sale of furniture, fixture and equipment                             | 7            | 35   | -  |
| -Impairment of financial investments  | 7            | -  | 56   |
| -Net gain on sale of financial investments                                    | 7            | (10)   | (481)  |
| -Loan impairment charges and other credit risk provisions – net of recoveries | 8            | 2,610  | 4,814  |
| -Depreciation of property and equipment                                       | 9            | 1,229  | 1,283  |
| -Amortisation of intangible assets  | 10           | 1,714  | 1,714  |
| -Amortisation of discount on financial investment                             |              | (2,142)  | (1,416)  |
| -Employer's current service cost, with interest                               |              | 133  | 151  |
| -Finance leases charge  |              | 44   | 62   |
| -Effect of currency translation   |              | (457)  | -  |
| -Change in operating assets   |              |  |  |
| Change in loans and advances to customers – net                               |              | 83,405   | (199,110)  |
| Change in other assets  |              | (5,617)  | 12,415   |
| -Change in operating liabilities  |              |  |  |
| Change in deposits from customers   |              | 136,706  | 86,212   |
| Change in other liabilities   |              | 9,308  | (16,539)   |
| -Retirement benefits paid   |              | (32)   | (198)  |
| -Tax paid   |              | (3,244)  | (920)  |
| <b>Net cash generated from / (used in) operating activities</b>               |              | <b>240,059</b>   | <b>(96,346)</b>  |
| <b>Cash flows from investing activities</b>                                   |              |  |  |
| Purchase of financial investments   |              | (2,419,861)  | (1,176,998)  |
| Proceeds from maturity of financial investments                               |              | 1,996,294  | 1,334,415  |
| Purchase of property and equipment  |              | (621)  | (1,129)  |
| Proceeds from sale of property and equipment                                  |              | 4  | -  |
| <b>Net cash (used in) / generated from investing activities</b>               |              | <b>(424,184)</b>   | <b>156,288</b>   |
| <b>Cash flows from financing activities</b>                                   |              |  |  |
| Dividends paid  |              | (10,002)   | (7,758)  |
| Finance leases paid   |              | -  | (294)  |
| <b>Net cash used in financing activities</b>                                  |              | <b>(10,002)</b>  | <b>(8,052)</b>   |
| <b>Net change in cash and cash equivalents</b>                                |              | <b>(194,127)</b>   | <b>51,890</b>  |
| Cash and cash equivalents at the beganing of the period                       |              | 327,743  | 251,796  |
| <b>Cash and cash equivalents at the end of the period</b>                     | 28           | <b>133,616</b>   | <b>303,686</b>   |

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'), 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 proforma.

**(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 2018. None of these are expected to have a significant effect on the interim condensed financial statements of the Bank for 2017.

**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 : During 2017, the HBON management realigned certain functions into a Corporate Center, including Other and Balance Sheet Management ('BSM').

**5 Interest income**

Interest bearing assets earned interest at an overall annualised rate of 3.00% for the nine month period ended 30 September 2017 (30 September 2016 – 3.18%).

|                                 | <b>Nine month<br/>period ended<br/>30 September<br/>2017<br/>RO'000</b> | Nine month<br>period ended<br>30 September<br>2016<br>RO'000 |
|---------------------------------|---|--|
| Loans and advances to customers | <b>41,500</b>   | 41,841   |
| Financial investments           | <b>4,006</b>  | 3,363  |
| Due from banks                  | <b>674</b>  | 211  |
| Others                          | <b>326</b>  | 627  |
|                                 | <b>46,506</b>   | 46,042   |

Notes to the unaudited interim condensed financial statements (continued)

**6 Interest expense**

For the nine month period ended 30 September 2017, the average overall annualised cost of funds was 0.45% (30 September 2016 – 0.39%).

|                         | <b>Nine month<br/>period ended<br/>30 September<br/>2017<br/>RO'000</b> | Nine month<br>period ended<br>30 September<br>2016<br>RO'000 |
|-------------------------|---|--|
| Deposits from customers | (6,725)   | (5,567)  |
| Due to banks            | -   | (4)  |
|                         | <u>(6,725)</u>  | <u>(5,571)</u>   |

**7 Other operating income – net**

|  | <b>Nine month<br/>period ended<br/>30 September<br/>2017<br/>RO'000</b> | Nine month<br>period ended<br>30 September<br>2016<br>RO'000 |
|--|---|--|
| Net gain on sale of financial investments        | 10  | 481  |
| Impairment of financial investments              | -   | (56)   |
| Loss on sale of furniture, fixture and equipment | (35)  | -  |
| Other income                                     | 63  | 119  |
|  | <u>38</u>   | <u>544</u>   |

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

|   | <b>Nine month<br/>period ended<br/>30 September<br/>2017<br/>RO'000</b> | Nine month<br>period ended<br>30 September<br>2016<br>RO'000 |
|---|---|--|
| Released / (provided) during the period – general (note 12)         | 813   | (2,214)  |
| Provided during the period – specific (note 12)                     | (6,412)   | (5,763)  |
| Provisions released / written back - specific (note 12)             | 1,435   | 1,780  |
| Adjustments as a result of fair value unwind                        | 580   | 291  |
| Reserved interest released  | 21  | 31   |
| Written-off loans recovered   | 1,435   | 1,443  |
| Bad debts directly written off to statement of comprehensive income | (482)   | (382)  |
|   | <u>(2,610)</u>  | <u>(4,814)</u>   |

**9 Operating expenses**

|  | <b>Nine month<br/>period ended<br/>30 September<br/>2017<br/>RO'000</b> | Nine month<br>period ended<br>30 September<br>2016<br>RO'000 |
|--|---|--|
| Employee compensation and benefits     | (16,905)  | (17,104)   |
| General and administrative expenses*   | (16,473)  | (15,743)   |
| Depreciation of property and equipment | (1,229)   | (1,283)  |
|  | <b>(34,607)</b>   | <b>(34,130)</b>  |

\* General and administrative expenses for the current period include the RO1.3m of “Mandoos Prize” draw expenses (30 September 2016: RO0.9m).

**10 Amortisation of intangible assets**

|   | <b>Nine month<br/>period ended<br/>30 September<br/>2017<br/>RO'000</b> | Nine month<br>period ended<br>30 September<br>2016<br>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)  |
|   | <b>(1,714)</b>  | <b>(1,714)</b>   |

**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:

|  | <b>Nine month<br/>period ended<br/>30 September<br/>2017</b> | Nine month<br>period ended<br>30 September<br>2016 | Year ended<br>31 December<br>2016 |
|--|--|--|-----------------------------------|
| Weighted average number of shares in issue ('000)  | <b>2,000,312</b>   | 2,000,312  | 2,000,312                         |
| Net profit for the period / year (RO'000)          | <b>13,659</b>  | 13,457   | 16,899                            |
| <b>Earnings per share – basic and diluted (RO)</b> |  |  |                                   |
| - for the period                                   | <b>0.007</b>   | 0.007  | 0.008                             |
| - annualised                                       | <b>0.009</b>   | 0.009  | 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.

|  | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|--|---|--------------------------------|-------------------------------|
| Overdrafts                               | 59,441                                  | 63,023                         | 63,745                        |
| Credit cards                             | 24,627                                  | 23,213                         | 23,543                        |
| Loans                                    | 1,023,507                               | 1,117,073                      | 1,145,680                     |
| Clean import loans                       | 269,408                                 | 265,477                        | 258,076                       |
| Bills discounted / purchased             | 23,966                                  | 8,152                          | 9,693                         |
| Gross loans and advances                 | <b>1,400,949</b>                        | 1,476,938                      | 1,500,737                     |
| Provision for loan impairment - specific | (18,296)                                | (27,487)                       | (26,508)                      |
| Provision for loan impairment - general* | (17,791)                                | (18,649)                       | (18,604)                      |
| Reserved interest**                      | (32,462)                                | (35,698)                       | (37,210)                      |
| Net loans and advances                   | <b>1,332,400</b>                        | 1,395,104                      | 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:

|               | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|---------------|---|--------------------------------|-------------------------------|
| 0-5%          | 977,225                                 | 1,004,324                      | 1,049,947                     |
| 5-7%          | 297,195                                 | 330,865                        | 314,569                       |
| 7-10%         | 56,133                                  | 90,225                         | 84,996                        |
| 10-13%        | 40,339                                  | 26,116                         | 26,310                        |
| More than 13% | 30,057                                  | 25,408                         | 24,915                        |
|               | <b>1,400,949</b>                        | 1,476,938                      | 1,500,737                     |

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

|                   | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|-------------------|---|--------------------------------|-------------------------------|
| 0-6 months        | 437,223                                 | 498,036                        | 526,692                       |
| 6-12 months       | 6,523                                   | 9,988                          | 15,417                        |
| 1-3 years         | 46,107                                  | 33,280                         | 31,778                        |
| 3-5 years         | 156,441                                 | 232,577                        | 233,646                       |
| More than 5 years | 686,106                                 | 621,223                        | 610,882                       |
|                   | <b>1,332,400</b>                        | 1,395,104                      | 1,418,415                     |

**12 Loans and advances to customers – net (continued)****Concentration of loans and advances:**

Loans and advances to customers by industry sector

|   | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|---|---|--------------------------------|-------------------------------|
| <b>Personal and consumer loans</b>                        | <b>492,200</b>                          | 489,615                        | 484,581                       |
| <b>Corporate and commercial</b>                           |   |                                |                               |
| Import trade  | 254,857                                 | 227,013                        | 208,713                       |
| Construction  | 51,206                                  | 73,936                         | 59,341                        |
| Manufacturing   | 270,270                                 | 250,221                        | 241,838                       |
| Wholesale and retail trade                                | 26,870                                  | 53,471                         | 45,286                        |
| Electricity, gas, water, transportation and communication | 44,960                                  | 113,426                        | 113,153                       |
| Services  | 86,492                                  | 136,215                        | 119,276                       |
| Mining and quarrying                                      | 114,531                                 | 88,138                         | 87,869                        |
| Others  | 59,563                                  | 44,903                         | 140,680                       |
| <b>Total gross loans and advances</b>                     | <b>1,400,949</b>                        | 1,476,938                      | 1,500,737                     |
| Provision for loan impairment - specific                  | (18,296)                                | (27,487)                       | (26,508)                      |
| Provision for loan impairment - general                   | (17,791)                                | (18,649)                       | (18,604)                      |
| Reserved interest   | (32,462)                                | (35,698)                       | (37,210)                      |
| <b>Net loans and advances</b>                             | <b>1,332,400</b>                        | 1,395,104                      | 1,418,415                     |
| <b>Non-performing loans</b>                               | <b>56,054</b>                           | 68,926                         | 69,127                        |

Specific provision for loan impairment and reserved interest represents 90.6% (30 September 2016 – 91.7% and 31 December 2016 – 92.2%) of gross non-performing loans and advances.

**Provision for loan impairment and reserved interest**

The movement on provision for loan impairment for the nine month period ended 30 September 2017 is analysed in the table below:

|   | <b>Specific<br/>provision<br/>RO'000</b> | <b>General<br/>provision<br/>RO'000</b> | <b>Total<br/>provision<br/>RO'000</b> |
|---|--|---|---------------------------------------|
| <b>Balance at 1 January 2017</b>            | <b>26,508</b>                            | <b>18,604</b>                           | <b>45,112</b>                         |
| Provided during the period (note 8)         | 6,412                                    | -                                       | 6,412                                 |
| Provisions released / written back (note 8) | (1,435)                                  | (813)                                   | (2,248)                               |
| Written off during the period               | (13,189)                                 | -                                       | (13,189)                              |
| <b>Balance at 30 September 2017</b>         | <b>18,296</b>                            | <b>17,791</b>                           | <b>36,087</b>                         |



Notes to the unaudited interim condensed financial statements (continued)

**12 Loans and advances to customers – net (continued)**

The movement on provision for loan impairment for the nine month period ended 30 September 2016 is analysed in the table below:

|   | Specific<br>provision<br>RO'000 | General<br>provision<br>RO'000 | Total<br>Provision<br>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                | <u>27,487</u>                   | <u>18,649</u>                  | <u>46,136</u>                |

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

|   | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 |
|---|---|--------------------------------|
| Balance at the beginning of the period            | <b>37,210</b>                           | 38,441                         |
| Reserved during the period                        | <b>5,799</b>                            | 5,938                          |
| Released to the statement of comprehensive income | <b>(497)</b>                            | (498)                          |
| Written off during the period                     | <b>(10,050)</b>                         | (8,183)                        |
| Balance at end of the period                      | <u><b>32,462</b></u>                    | <u>35,698</u>                  |

The estimated fair value of loans and advances is RO1,298.9m as of 30 September 2017 (30 September 2016 – RO 1,372.2m and 31 December 2016 – RO 1,395.2m).

**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:

|                                       | <b>Fair value<br/>30<br/>September<br/>2017<br/>RO'000</b> | Fair value<br>30<br>September<br>2016<br>RO'000 | Fair value<br>31<br>December<br>2016<br>RO'000 | <b>Carrying<br/>value<br/>30<br/>September<br/>2017<br/>RO'000</b> | Carrying<br>value<br>30<br>September<br>2016<br>RO'000 | Carrying<br>value<br>31<br>December<br>2016<br>RO'000 | <b>Cost<br/>30<br/>September<br/>2017<br/>RO'000</b> | Cost<br>30<br>September<br>2016<br>RO'000 | Cost<br>31<br>December<br>2016<br>RO'000 |
|---------------------------------------|--|---|--|--|--|---|--|---|--|
| <b>Marketable securities – MSM</b>    |  |   |  |  |  |   |  |   |  |
| Insurance                             | -  | 372   | 371  | -  | 372  | 371   | -  | 330                                       | 330                                      |
| Government bonds                      | <b>68,050</b>  | 82,488  | 70,697   | <b>68,050</b>  | 82,488   | 70,697  | <b>70,907</b>  | 86,522                                    | 74,454                                   |
|                                       | <b>68,050</b>  | 82,860  | 71,068   | <b>68,050</b>  | 82,860   | 71,068  | <b>70,907</b>  | 86,852                                    | 74,784                                   |
| <b>Unquoted and other investments</b> |  |   |  |  |  |   |  |   |  |
| Treasury bills                        | <b>768,343</b>   | 386,277   | 338,362  | <b>768,343</b>   | 386,277  | 338,362   | <b>767,788</b>                                       | 385,664                                   | 337,712                                  |
| Unquoted Omani shares*                | <b>260</b>   | 260   | 260  | <b>260</b>   | 260  | 260   | <b>260</b>   | 260                                       | 260                                      |
| Unquoted foreign shares*              | <b>7</b>   | 26  | 7  | <b>7</b>   | 26   | 7   | <b>7</b>   | 26  | 7  |
| Investment fund units                 | <b>2,955</b>   | 3,265   | 3,272  | <b>2,955</b>   | 3,265  | 3,272   | <b>3,289</b>   | 3,321                                     | 3,312                                    |
|                                       | <b>771,565</b>   | 389,828   | 341,901  | <b>771,565</b>   | 389,828  | 341,901   | <b>771,344</b>                                       | 389,271                                   | 341,291                                  |
| <b>Total</b>                          | <b>839,615</b>   | 472,688   | 412,969  | <b>839,615</b>   | 472,688  | 412,969   | <b>842,251</b>                                       | 476,123                                   | 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: | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|--|---|--------------------------------|-------------------------------|
| <b>Cost of:</b>                            |   |                                |                               |
| Quoted - Equity and other investments      | <b>70,907</b>                           | 86,852                         | 74,784                        |
| Unquoted and other investments             | <b>771,344</b>                          | 389,271                        | 341,291                       |
|  | <b>842,251</b>                          | 476,123                        | 416,075                       |
| <b>Revaluation loss of:</b>                |   |                                |                               |
| Quoted equity and other securities         | <b>(2,636)</b>                          | (3,435)                        | (3,106)                       |
|  | <b>839,615</b>                          | 472,688                        | 412,969                       |

**14 Other assets**

|                                       | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|---------------------------------------|---|--------------------------------|-------------------------------|
| Acceptances                           | <b>16,116</b>                           | 16,711                         | 15,639                        |
| Derivatives - positive mark-to-market | <b>7,844</b>                            | 6,663                          | 5,445                         |
| Prepayments and accrued income        | <b>701</b>                              | 866                            | 1,084                         |
| Others                                | <b>4,255</b>                            | 5,334                          | 1,131                         |
|                                       | <b>28,916</b>                           | 29,574                         | 23,299                        |

**15 Intangible assets**

|                        | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|------------------------|---|--------------------------------|-------------------------------|
| Core deposits          | <b>12,306</b>                           | 12,306                         | 12,306                        |
| Customer relationships | <b>3,691</b>                            | 3,691                          | 3,691                         |
|                        | <b>15,997</b>                           | 15,997                         | 15,997                        |
| Less: amortised        | <b>(12,187)</b>                         | (9,902)                        | (10,473)                      |
|                        | <b>3,810</b>                            | 6,095                          | 5,524                         |

**16 Property and equipment**

RO0.6m of furniture and equipment were added during the period (30 September 2016: RO 1.1m). Furniture, fixture and equipment disposed of during the period was RO0.4m (30 September 2016: nil).

**17 Deposits from customers**

| Deposits details are as follows: | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|----------------------------------|---|--------------------------------|-------------------------------|
| Current and call                 | <b>1,028,789</b>                        | 931,921                        | 929,613                       |
| Savings                          | <b>448,696</b>                          | 466,214                        | 461,143                       |
| Time deposits                    | <b>523,521</b>                          | 487,496                        | 473,452                       |
| Others                           | <b>2,355</b>                            | 2,919                          | 2,447                         |
|                                  | <b>2,003,361</b>                        | 1,888,550                      | 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:

|              | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|--------------|---|--------------------------------|-------------------------------|
| 0-6 months   | 752,457                                 | 657,014                        | 681,272                       |
| 6-12 months  | 266,503                                 | 343,924                        | 274,196                       |
| 1-3 years    | 435,382                                 | 342,501                        | 351,350                       |
| 3-5 years    | 140,375                                 | 149,340                        | 157,841                       |
| Over 5 years | 408,644                                 | 395,771                        | 401,996                       |
|              | <b>2,003,361</b>                        | 1,888,550                      | 1,866,655                     |

The interest rate bands of deposits are as follows:

|      | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|------|---|--------------------------------|-------------------------------|
| 0-2% | 1,797,254                               | 1,611,096                      | 1,633,752                     |
| 2-4% | 206,107                                 | 277,249                        | 232,903                       |
| 4-6% | -                                       | 205                            | -                             |
|      | <b>2,003,361</b>                        | 1,888,550                      | 1,866,655                     |

**18 Other liabilities**

|                                       | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|---------------------------------------|---|--------------------------------|-------------------------------|
| Derivatives – negative mark-to-market | 1,741                                   | 211                            | 228                           |
| Retirement benefit liability          | 856                                     | 589                            | 755                           |
| Acceptances                           | 16,116                                  | 16,711                         | 15,639                        |
| Provisions                            | 823                                     | 208                            | 711                           |
| Accruals and deferred income          | 6,076                                   | 5,697                          | 6,650                         |
| Obligation under finance lease        | 508                                     | 732                            | 464                           |
| Others                                | 13,354                                  | 9,206                          | 5,574                         |
|                                       | <b>39,474</b>                           | 33,354                         | 30,021                        |

**19 Contingent liabilities, commitments and derivatives**

|   | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|---|---|--------------------------------|-------------------------------|
| Undrawn unconditionally cancellable commitments     | 602,190                                 | 594,250                        | 643,566                       |
| Undrawn unconditionally non-cancellable commitments | 41,378                                  | 100,311                        | 97,385                        |
| Forward foreign exchange contracts                  | 265,379                                 | 260,423                        | 85,708                        |
| Interest rate swaps                                 | 77,000                                  | 77,000                         | 77,000                        |
|   | <b>985,947</b>                          | 1,031,984                      | 903,659                       |

As at 30 September 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<br>RO'000 |
|---|----------------------|-------------------|-----------------|
|   | Level 1<br>RO'000    | Level 2<br>RO'000 |                 |
| <b>At 30 September 2017</b>               |                      |                   |                 |
| <b>Assets</b>                             |                      |                   |                 |
| Derivatives                               | -                    | 7,844             | 7,844           |
| Financial investments: available-for-sale | -                    | 839,348           | 839,348         |
| <b>Liabilities</b>                        |                      |                   |                 |
| Derivatives                               | -                    | 1,741             | 1,741           |
| Deposits from customers                   | -                    | 83,478            | 83,478          |
| <b>At 30 September 2016</b>               |                      |                   |                 |
| <b>Assets</b>                             |                      |                   |                 |
| Derivatives                               | -                    | 6,663             | 6,663           |
| Financial investments: available-for-sale | 372                  | 472,030           | 472,402         |
| <b>Liabilities</b>                        |                      |                   |                 |
| Derivatives                               | -                    | 211               | 211             |
| Deposits from customers                   | -                    | 82,767            | 82,767          |
| <b>At 31 December 2016</b>                |                      |                   |                 |
| <b>Assets</b>                             |                      |                   |                 |
| Derivatives                               | -                    | 5,445             | 5,445           |
| Financial investments: available-for-sale | 371                  | 412,331           | 412,702         |
| <b>Liabilities</b>                        |                      |                   |                 |
| 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 the data derived from the market. The market value adjustment of foreign exchange contracts are included in the book value of other assets and other liabilities.

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        | 30 September 2017 |                           |           | 30 September 2016 |                           |           | 31 December 2016 |                           |           |
|-------------------|-------------------|---------------------------|-----------|-------------------|---------------------------|-----------|------------------|---------------------------|-----------|
|                   | Assets            | Liabilities<br>and equity | Mismatch  | Assets            | Liabilities<br>and equity | Mismatch  | Assets           | Liabilities<br>and equity | Mismatch  |
|                   | RO'000            | RO'000                    | RO'000    | RO'000            | RO'000                    | RO'000    | RO'000           | RO'000                    | RO'000    |
| 0-6 months        | 1,386,421         | 845,298                   | 541,123   | 1,173,831         | 739,336                   | 434,495   | 1,138,540        | 753,399                   | 385,141   |
| 6-12 months       | 17,423            | 281,659                   | (264,236) | 98,127            | 357,864                   | (259,737) | 123,068          | 292,444                   | (169,376) |
| 1-3 years         | 113,837           | 435,634                   | (321,797) | 64,881            | 342,501                   | (277,620) | 56,889           | 351,350                   | (294,461) |
| 3-5 years         | 160,791           | 140,375                   | 20,416    | 278,212           | 149,340                   | 128,872   | 279,300          | 157,841                   | 121,459   |
| more than 5 years | 737,334           | 712,840                   | 24,494    | 666,902           | 692,912                   | (26,010)  | 656,096          | 698,859                   | (42,763)  |
|                   | <b>2,415,806</b>  | <b>2,415,806</b>          | <b>-</b>  | <b>2,281,953</b>  | <b>2,281,953</b>          | <b>-</b>  | <b>2,253,893</b> | <b>2,253,893</b>          | <b>-</b>  |

**22 Exposure to credit risk**

**Loans and advances to customers - net**

|  | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|--|---|--------------------------------|-------------------------------|
| Individually impaired – non performing (note 12)                         | <b>56,054</b>                           | 68,926                         | 69,127                        |
| Provision for loan impairment - specific and reserved interest (note 12) | <b>(50,758)</b>                         | (63,185)                       | (63,718)                      |
| Carrying amount of non-performing<br>Past due and not impaired           | <b>5,296</b>                            | 5,741                          | 5,409                         |
| 1-30 days  | <b>22,715</b>                           | 21,622                         | 7,544                         |
| 31-60 days   | <b>2,972</b>                            | 2,267                          | 3,823                         |
| 61-89 days   | <b>2,282</b>                            | 1,295                          | 1,744                         |
| Neither past due nor impaired  | <b>1,316,926</b>                        | 1,382,828                      | 1,418,499                     |
| Provision for loan impairment - general (note 12)                        | <b>(17,791)</b>                         | (18,649)                       | (18,604)                      |
| Total carrying amount (note 12)  | <b>1,332,400</b>                        | 1,395,104                      | 1,418,415                     |

**Neither past due nor impaired assets**

|                            | <b>30 September<br/>2017<br/>RO'000</b> | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|----------------------------|---|--------------------------------|-------------------------------|
| Balances with central bank | <b>101,486</b>                          | 170,232                        | 250,767                       |
| Due from banks             | <b>51,556</b>                           | 144,019                        | 80,222                        |
| Financial investments      | <b>836,393</b>                          | 468,765                        | 409,059                       |
| Other assets               | <b>28,215</b>                           | 28,708                         | 22,215                        |
|                            | <b>1,017,650</b>                        | 811,724                        | 762,263                       |

**23 Share capital**

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (30 September 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 RO 0.100 each (30 September 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:

|                              | <b>30 September<br/>2017<br/>Number of<br/>shares</b> | 30 September<br>2016<br>Number of<br>shares | 31 December<br>2016<br>Number of<br>shares |
|------------------------------|---|---|--|
| HSBC Middle East Holdings BV | <b>1,020,159,523</b>                                  | 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.

**24 Reserves (continued)**

*(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.

**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<br>entity | Other<br>related<br>group<br>entities | Directors | Others | Total   |
|---|------------------|---------------------------------------|-----------|--------|---------|
|   | RO'000           | RO'000                                | RO'000    | RO'000 | RO'000  |
| 30 September 2017                             |                  |                                       |           |        |         |
| Loans and advances                            | -                | -                                     | -         | 87,144 | 87,144  |
| Current, deposit and other accounts           | -                | 2,117                                 | 108       | 22,893 | 25,118  |
| Letters of credit and guarantees              | -                | 75,842                                | -         | 5,628  | 81,470  |
| Acceptances                                   | -                | -                                     | -         | 2,194  | 2,194   |
| Due from banks                                | -                | 50,183                                | -         | -      | 50,183  |
| Due to banks                                  | -                | 17,793                                | -         | -      | 17,793  |
| <b>For the period ended 30 September 2017</b> |                  |                                       |           |        |         |
| Net fee income                                | -                | 5                                     | -         | -      | 5       |
| Other operating expenses                      | -                | (7,208)                               | (12)      | (68)   | (7,288) |
| Purchase of property and equipment            | -                | -                                     | -         | (60)   | (60)    |
|   | Parent<br>entity | Other<br>related<br>group<br>entities | Directors | Others | Total   |
|   | RO'000           | RO'000                                | RO'000    | RO'000 | 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  |
| Acceptances                                   | -                | -                                     | -         | 836    | 836     |
| Due from banks                                | -                | 31,455                                | -         | -      | 31,455  |
| Due to banks                                  | -                | 22,735                                | -         | -      | 22,735  |
| <b>For the period ended 30 September 2016</b> |                  |                                       |           |        |         |
| Net fee income                                | -                | 28                                    | -         | -      | 28      |
| Other operating expenses                      | -                | (7,629)                               | (16)      | (74)   | (7,719) |
| Purchase of property and equipment            | -                | -                                     | -         | (6)    | (6)     |



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

| 31 December 2016                    | Parent entity<br>RO'000 | Other related group entities<br>RO'000 | Directors<br>RO'000 | Others<br>RO'000 | Total<br>RO'000 |
|-------------------------------------|-------------------------|--|---------------------|------------------|-----------------|
| Loans and advances                  | -                       | -                                      | -                   | 62,064           | 62,064          |
| Current, deposit and other accounts | -                       | 1,432                                  | 337                 | 9,151            | 10,920          |
| Letters of credit and guarantees    | -                       | 87,005                                 | -                   | 6,410            | 93,415          |
| Acceptances                         | -                       | -                                      | -                   | 1,418            | 1,418           |
| Due from banks                      | -                       | 14,727                                 | -                   | -                | 14,727          |
| Due to banks                        | -                       | 16,509                                 | -                   | -                | 16,509          |

Related party loans and advances bear interest at rates between 1.45% p.a. and 6.5% p.a. (30 September 2016: between 1.45% p.a. and 6% p.a.). Related party deposits bear interest at rates between 0.2% p.a. and 1.25% p.a. (30 September 2016: between 0.20% p.a. and 1.25% p.a.).

**Compensation of key management personnel**

|   | Nine month ended<br>30 September<br>2017<br>RO'000 | Nine month ended<br>30 September<br>2016<br>RO'000 |
|---|--|--|
| Wages, salaries and other short term benefits | 1,017  | 987  |
| Post-employment benefits                      | 66   | 108  |
|   | <b>1,083</b>                                       | <b>1,095</b>                                       |

**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.

|  | 30 September 2017 |                |                |                            | Total            |
|--|-------------------|----------------|----------------|----------------------------|------------------|
|  | CMB<br>RO'000     | RBWM<br>RO'000 | GB&M<br>RO'000 | Corporate centre<br>RO'000 | RO'000           |
| Net interest income  |                   |                |                |                            |                  |
| - External   | 6,347             | 20,855         | 8,493          | 4,086                      | 39,781           |
| - Internal   | 5,027             | 1,910          | (2,021)        | (4,916)                    | -                |
|  | <b>11,374</b>     | <b>22,765</b>  | <b>6,472</b>   | <b>(830)</b>               | <b>39,781</b>    |
| Net fee income   | 2,661             | 2,869          | 2,815          | (129)                      | 8,216            |
| Net trading income   | 1,030             | 947            | 2,719          | 2,466                      | 7,162            |
| Other operating income   | 21                | 60             | 32             | 36                         | 149              |
| Total operating income   | <b>15,086</b>     | <b>26,641</b>  | <b>12,038</b>  | <b>1,543</b>               | <b>55,308</b>    |
| Loan impairment (charges) and other credit risk provisions - net of recoveries | (991)             | (3,318)        | 1,699          | -                          | (2,610)          |
| Net operating income   | <b>14,095</b>     | <b>23,323</b>  | <b>13,737</b>  | <b>1,543</b>               | <b>52,698</b>    |
| Total operating expenses   | (8,283)           | (23,155)       | (4,291)        | (592)                      | (36,321)         |
| Profit before tax  | <b>5,812</b>      | <b>168</b>     | <b>9,446</b>   | <b>951</b>                 | <b>16,377</b>    |
| Reportable segment assets  | <b>492,362</b>    | <b>480,840</b> | <b>380,495</b> | <b>1,062,109</b>           | <b>2,415,806</b> |
| Reportable segment liabilities   | <b>1,029,461</b>  | <b>654,719</b> | <b>361,903</b> | <b>51,868</b>              | <b>2,097,951</b> |

Notes to the unaudited interim condensed financial statements (continued)

26 Operating segments (continued)

|  | 30 September 2016 |                |                |                               | Total<br>RO'000 |
|--|-------------------|----------------|----------------|-------------------------------|-----------------|
|  | CMB<br>RO'000     | RBWM<br>RO'000 | GB&M<br>RO'000 | Corporate<br>centre<br>RO'000 |                 |
| Net interest income  |                   |                |                |                               |                 |
| - External   | 8,379             | 21,681         | 7,328          | 3,083                         | 40,471          |
| - Internal   | 1,611             | 1,428          | (1,299)        | (1,740)                       | -               |
|  | 9,990             | 23,109         | 6,029          | 1,343                         | 40,471          |
| Net fee income   | 3,465             | 3,101          | 2,567          | (120)                         | 9,013           |
| Net trading income   | 1,064             | 1,116          | 2,805          | 1,035                         | 6,020           |
| Other operating income   | 295               | 309            | 58             | 103                           | 765             |
| Total operating income   | 14,814            | 27,635         | 11,459         | 2,361                         | 56,269          |
| Loan impairment (charges) and other credit risk provisions - net of recoveries | 628               | (4,280)        | (1,162)        | -                             | (4,814)         |
| Net operating income   | 15,442            | 23,355         | 10,297         | 2,361                         | 51,455          |
| Total operating expenses   | (7,916)           | (23,201)       | (4,299)        | (428)                         | (35,844)        |
| Profit before tax  | 7,526             | 154            | 5,998          | 1,933                         | 15,611          |
| Reportable segment assets  | 460,254           | 476,724        | 483,900        | 861,075                       | 2,281,953       |
| Reportable segment liabilities   | 811,296           | 677,507        | 440,853        | 42,176                        | 1,971,832       |

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

|                                 | 30 September<br>2017<br>RO'000 | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|---------------------------------|--------------------------------|--------------------------------|-------------------------------|
| CET 1 / Tier 1 capital          | 295,046                        | 289,930                        | 295,046                       |
| Tier 2 capital (T2)             | 18,640                         | 16,682                         | 18,640                        |
| <b>Total regulatory capital</b> | <b>313,686</b>                 | <b>306,612</b>                 | <b>313,686</b>                |
| Risk-weighted assets            | 1,972,911                      | 1,711,460                      | 1,679,450                     |
| CET 1 / Tier 1 capital ratio    | 14.95%                         | 16.94%                         | 17.57%                        |
| Total capital ratio             | 15.90%                         | 17.92%                         | 18.68%                        |

28 Cash and cash equivalents

|   | 30 September<br>2017<br>RO'000 | 30 September<br>2016<br>RO'000 | 31 December<br>2016<br>RO'000 |
|---|--------------------------------|--------------------------------|-------------------------------|
| <i>Unaudited interim condensed statement of financial position comprises:</i> |                                |                                |                               |
| Cash and balances with central banks  | 131,613                        | 205,590                        | 284,947                       |
| Due from banks  | 51,556                         | 144,019                        | 80,222                        |
| Due to banks  | (49,553)                       | (45,923)                       | (37,426)                      |
| Total   | 133,616                        | 303,686                        | 327,743                       |

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

**Liquidity coverage ratio disclosure for the period ended 30 September 2017:**

|   | 30 September 2017                                    |  | 30 September 2016                                     |   |
|---|--|--|---|---|
|   | Total<br>Unweighted<br>Value<br>(average*)<br>RO'000 | Total<br>Weighted<br>Value<br>(average*)<br>RO'000 | Total<br>Unweighted<br>Value<br>(average**)<br>RO'000 | Total<br>Weighted<br>Value<br>(average**)<br>RO'000 |
| <b>High quality liquid assets</b>                   |  |  |   |   |
| 1 Total High quality liquid assets (HQLA)           |  | <b>795,460</b>                                     |   | 544,307   |
| <b>Cash outflows</b>                                |  |  |   |   |
| Retail deposits and deposits from small business    |  |  |   |   |
| 2 customers, of which:                              | <b>653,601</b>                                       | <b>49,191</b>                                      | 687,802   | 51,739  |
| 3 -Stable deposits                                  | <b>323,384</b>                                       | <b>16,169</b>                                      | 340,834   | 17,042  |
| 4 -Less stable deposits                             | <b>330,217</b>                                       | <b>33,022</b>                                      | 346,968   | 34,697  |
| 5 Unsecured wholesale funding, of which:            | <b>1,388,404</b>                                     | <b>572,823</b>                                     | 1,264,040   | 519,450   |
| -Operational deposits (all counterparties) and      |  |  |   |   |
| 6 deposits in networks of cooperative banks         | -  | -  | -   | -   |
| 7 -Non-operational deposits (all counterparties)    | <b>1,388,404</b>                                     | <b>572,823</b>                                     | 1,264,040   | 519,450   |
| 8 -Unsecured debt                                   | -  | -  | -   | -   |
| 9 Secured wholesale funding                         | -  | -  | -   | -   |
| 10 Additional requirements, of which                | <b>52,884</b>  | <b>5,014</b>                                       | 85,443  | 8,287   |
| -Outflows related to derivative exposures and other |  |  |   |   |
| 11 collateral requirements                          | -  | -  | -   | -   |
| -Outflows related to loss of funding on debt        |  |  |   |   |
| 12 products   | -  | -  | -   | -   |
| 13 -Credit and liquidity facilities                 | <b>52,884</b>  | <b>5,014</b>                                       | 85,443  | 8,287   |
| 14 Other contractual funding obligations            | -  | -  | -   | -   |
| 15 Other contingent funding obligations             | <b>864,507</b>                                       | <b>43,225</b>                                      | 940,013   | 47,001  |
| <b>16 Total cash outflows (2+5+10+15)</b>           |  | <b>670,253</b>                                     |   | 626,477   |
| <b>Cash inflows</b>                                 |  |  |   |   |
| 17 Secured lending (e.g. reverse repos)             | -  | -  | -   | -   |
| 18 Inflows from fully performing exposures          | <b>208,352</b>                                       | <b>162,817</b>                                     | 277,995   | 197,540   |
| 19 Other cash inflows                               | -  | -  | -   | -   |
| <b>20 Total cash inflows (17+18+19)</b>             | <b>208,352</b>                                       | <b>162,817</b>                                     | 277,995   | 197,540   |
|   |  | <b>Total<br/>Adjusted<br/>Value</b>                |   | <b>Total<br/>Adjusted<br/>Value</b>                 |
| <b>21 Total HQLA</b>                                |  | <b>795,460</b>                                     |   | 544,307   |
| <b>22 Total net cash outflows (16-20)</b>           |  | <b>507,436</b>                                     |   | 428,937   |
| <b>23 Liquidity coverage ratio (21/22)</b>          |  | <b>157%</b>  |   | 127%  |

\*simple average of daily observations over the last three month (Jul – Sep 2017).

\*\*simple average of monthly observations over the last three month (Jul – Sep 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.