
**HSBC Bank Oman S.A.O.G.**
(formerly Oman International Bank S.A.O.G.)

# Interim Condensed Financial Report
**31 March 2013**

HSBC

# Interim Condensed Financial Report - 31 March 2013

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**Presentation of Information**

This document comprises the Interim Condensed Financial Report – 31 March 2013 for HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.) (‘the Bank’). It contains Unaudited Interim Condensed Financial Statements, together with the Board of Directors Report, the Auditor’s review report and the Summary of Unaudited Results.

# Board of Director's Report on the three months results (unaudited) for the period ended 31 March 2013

**Dear Shareholders**,

Ten months have passed since HSBC Bank Oman S.A.O.G. ('HBON') was formed as result of the merger between Oman International Bank S.A.O.G. ('OIB') and HSBC Middle East Ltd.'s ('HSBC Oman') operations in Oman. 2012 was a year of investment, integration and streamlining two complex banking institutions into a more robust bank positioned for growth and sustainable shareholder returns. The first quarter of 2013 has been focused on improving our product proposition and training our frontline staff while improving and standardising our operations to improve the overall HBON banking experience for our customers.

During the quarter, HBON has also completed an Internal Operational Compliance Certification whereby all businesses functions have certified that as of 31st March 2013 the bank is operationally compliant with HSBC Group standards. Furthermore, we have successfully brought more than 160 new corporate clients onto HSBCnet, our business internet banking platform. It gives me great pleasure to present you with HBON's first quarter financial results.

## Performance Summary

As per the International Financial Reporting Standards 3 ('IFRS 3') 'Business Combinations' requirements, the Profit and Loss ('P&L') of HBON for the first quarter of 2013 represents three months of HBON's results against the results of HSBC Oman for the same period of the previous year.

HBON's robust financial performance demonstrated management's commitment to the success of the merged entity, reporting a 91% increase in Net profit for Q1 2013 to reach RO5.7m compared to RO3.0m for the same period in 2012. Net interest income ('NII') increased by 124% for the period ended 31st March 2013 to reach RO11.6m from RO5.2m for the same period last year. Net Fee and other income are also up by 61% to RO3.1m compared to RO1.9m in 2012. Net Exchange income stood at RO1.8m, representing a 44% increase in comparison to RO1.3m for the same period last year.

A net recovery of RO2.5m has been reported as Loan Impairment Charges for the period against a net charge of RO0.2m in Q1 2012. This was due to a recovery of RO1.6m from one corporate client and a general provision release of RO1.2m due to reduction in corporate advances which partly got off set by net charge of RO 0.3m in Retail loans.

Operating expenses increased by 167% to RO12.3m compared to RO4.6m in Q1 2012 due to high running costs of the merged bank.

Loans and advances net of provisions and reserved interest as at 31st March 2013 reported an increase of 119% to reach RO1,064.8m compared to RO485.2m as at 31st March 2012. Customer deposits increased by 155% to RO2,115.5m compared to RO828.9m as at 31st March 2012. This increase in Loans and Advances and Customer Deposits is mainly due to the business combination.

The Capital Adequacy ratio stood at 17.6% as at Q1 2013 compared to 16.4% in 2012, representing a strong capital base for future growth.

## Branch Network Strategy

Since HBON was formed in June 2012, senior management has completed a comprehensive branch review resulting in the segmentation of the network into three categories – Flagship, Mid-Market and Community. The review was designed to ensure all branches are strategically placed to serve our customers and look for synergies between branches to optimise locations. As a result, we have decided to close down four branches (Ruwi, Qurum, Sohar and Thumrait Air Base) as they were all in close proximity to other HBON branches.

We remain focused on improving career development and employment opportunities for Omani nationals, managing operational risks in the branch network, ensuring the branch network operates more efficiently and establishing a solid foundation to serve our customers more effectively. We have created six new senior roles; these positions will be responsible for coordinating each regional branch network and delivering on our strategy in Oman. .

In addition, and in line with our commitment to maintaining a strong focus on Risk and Compliance, we have also created six new senior operational roles across the regions to ensure we comply with local and global regulations and standards. The twelve regional roles will join the HBON senior executive management team.

**Staff Training and Development**

One of our top priorities is to improve the quality of customer service in order to further enrich the overall HBON banking experience for our customers. We believe that in today's highly competitive market, customer satisfaction is vital for retaining and developing our existing customer base, attracting new customers and building long lasting relationships that are founded on transparency and trust. To facilitate this journey, the bank has focused its efforts on providing frontline staff with the necessary tools, skillsets and learning materials that will enable them to serve customers with the highest standards of professionalism and care. In line with this strategy of 'Frontline First', HBON has begun introducing a series of training initiatives in 2013 the first of which was an accredited three day Customer Service Representative Workshop that combined operations, systems and product knowledge training. The interactive programme was structured to empower our frontline employees and their ability to contribute to the bank's success and be part of realising HBON's goal of becoming the best bank in Oman and the best place to work.

**ATM Network Upgrade and Replacement**

To increase the convenience of our retail banking customers, HBON has completed the installation of state-of-the-art multifunction ATMs that offer cash withdrawal and deposit functions on one single platform and allow customers to transfer funds between HSBC accounts, make credit card and utility payments and view mini statements. Today, the bank operates more than 130 ATMs across Oman that are connected to the OmanNet National Switch Network. This connection also enables customers to use any ATM in the Sultanate. HBON has also identified five new locations to install ATMs which are due to be functional and ready for use during the second quarter of 2013.

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

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

**Simon N Cooper**
**Chairman**

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## Review Report to the Board of Directors of HSBC Bank Oman SAOG

The Chairman
Board of Directors
HSBC Bank Oman SAOG
PO Box 1727, CPO Seeb 111
Muscat, Sultanate of Oman

**Introduction**

We have reviewed the unaudited condensed statement of financial position of HSBC Bank Oman SAOG ("the Bank") as at 31 March 2013, and the related unaudited condensed statements of comprehensive income, changes in equity and cash flows for the three months period then ended, and other explanatory notes ("the interim financial information") set out on pages 6 to 29.

Management are responsible for the preparation and fair presentation of the interim financial information in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting' and the minimum disclosure requirements issued by the Capital Market Authority ("CMA"). Our responsibility is to express a conclusion on the interim financial information based on our review.

**Scope of review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Bank is not:

i) prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'; and

ii) in compliance, in all material respects, with the minimum disclosure requirements issued by the CMA.

29 April 2013

*KPMG*

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**

**Summary of unaudited results for the period ended 31 March 2013**

| | | 31 March 2013<br>RO'000 | 31 March 2012<br>RO'000 | Change (%) |
|---|---|---|---|---|
| | **Loans and advances net of provisions and reserved interest** | **1,064,840** | 485,213 | 119% |
| | **Customer deposits** | **2,115,571** | 828,968 | 155% |
| | **Net assets** | **299,230** | 117,220 | 155% |
| * | **Net assets per share** | **0.150** | 0.120 | 25% |

| | | Three months period ended<br>31 March 2013<br>RO'000 | Three months period ended<br>31 March 2012<br>RO'000 | Change (%) |
|---|---|---|---|---|
| | **Net interest income** | **11,609** | 5,172 | 124% |
| | **Net profit for the period** | **5,742** | 3,000 | 91% |
| ** | **Earnings per share (annualised)** | **0.011** | 0.012 | (8%) |
| *** | **Capital adequacy ratio (CAR)** | **17.65%** | 16.41% | 8% |

*Comparative information presented is that of HSBC Bank Middle East Limited Oman branches as being the accounting acquirer and as a result of application of IFRS 3 - Business Combinations as discussed in note 2 (c)*

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

** *Earnings per share (annualised) have been calculated by dividing the net profit after tax attributable to ordinary shareholders for the period ended 31 March by the average number of ordinary shares in issue for the period.*

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

**Unaudited interim condensed statement of comprehensive income for the three months period ended 31 March 2013**

| | Notes | **Three months ended 31 March 2013 RO'000** | (refer note 5) Three months ended 31 March 2012 RO'000 |
|---|---|---|---|
| Interest income | *6* | **14,799** | 6,313 |
| Interest expense | *7* | **(3,190)** | (1,141) |
| **Net interest income** | | **11,609** | 5,172 |
| Net fee income | | **3,000** | 1,912 |
| Net exchange income | | **1,816** | 1,260 |
| Dividend income | | **77** | - |
| Other operating income | | **24** | 16 |
| **Net operating income before loan impairment charges and other credit risk provisions** | | **16,526** | 8,360 |
| Loan impairment (charges) and other credit risk provisions - net of recoveries | *8* | **2,520** | (221) |
| **Net operating income** | | **19,046** | 8,139 |
| Operating expenses | *9* | **(11,705)** | (4,616) |
| Amortisation and impairment of intangible assets | *10* | **(571)** | - |
| **Total operating expenses** | | **(12,276)** | (4,616) |
| **Profit before tax** | | **6,770** | 3,523 |
| Tax expense | | **(1,028)** | (523) |
| **Profit for the period** | | **5,742** | 3,000 |
| **Other comprehensive income/(expense)** | | | |
| Fair value gain on available-for-sale investments | | **1,283** | 98 |
| Effect of currency translation | | **167** | - |
| Income taxes on fair value gain on available-for-sale investments | | **(99)** | (12) |
| | | **1,351** | 86 |
| **Total comprehensive income for the period** | | **7,093** | 3,086 |
| **Earnings per share - basic** | *11* | **0.011** | 0.012 |

The accompanying notes on pages 11 to 29 form an integral part of these interim condensed financial statements.

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**

**Unaudited interim condensed statement of financial position as at 31 March 2013**

| | Notes | At 31 March 2013 | (refer note 5) At 31 March 2012 | (refer note 5) Audited At 31 December 2012 |
|---|---|---|---|---|
| | | **RO'000** | RO'000 | RO'000 |
| **Assets** | | | | |
| Cash and balances with central banks | | **248,230** | 46,791 | 120,540 |
| Due from banks | | **194,563** | 117,924 | 183,858 |
| Loans and advances to customers - net | *12* | **1,064,840** | 485,213 | 1,194,443 |
| Financial investments | *13* | **896,324** | 329,958 | 680,672 |
| Other assets | *14* | **112,584** | 64,049 | 188,577 |
| Intangible assets | *15&5* | **14,093** | - | 14,664 |
| Property, plant and equipment | *16* | **30,550** | 1,433 | 30,062 |
| **Total assets** | | **2,561,184** | 1,045,368 | 2,412,816 |
| **Liabilities and equity** | | | | |
| **Liabilities** | | | | |
| Due to banks | | **34,151** | 20,939 | 46,170 |
| Deposits from customers | *17* | **2,115,571** | 828,968 | 1,851,567 |
| Other liabilities | *18* | **112,232** | 78,241 | 220,942 |
| **Total liabilities** | | **2,261,954** | 928,148 | 2,118,679 |
| **Equity** | | | | |
| Share capital | *23* | **200,031** | 98,015 | 200,031 |
| Legal reserve | *24(a)* | **32,673** | 32,093 | 32,673 |
| Statutory reserve | *24(b)* | **1,252** | 1,019 | 1,236 |
| Merger reserve | *24(c)* | **-** | (84,112) | - |
| Available-for-sale fair value reserve | *24(d)* | **2,819** | - | 1,635 |
| Retained profits | | **62,455** | 70,205 | 58,562 |
| **Total equity** | | **299,230** | 117,220 | 294,137 |
| **Total equity and liabilities** | | **2,561,184** | 1,045,368 | 2,412,816 |
| **Net assets per share** | | **RO 0.150** | RO 0.120 | RO 0.147 |
| ***Off-balance sheet items:*** | | | | |
| **Contingent liabilities and commitments** | | | | |
| - Documentary credits | | **177,355** | 144,565 | 86,782 |
| - Guarantees | | **257,208** | 205,898 | 334,677 |
| - Others | *19* | **957,640** | 564,851 | 1,114,228 |
| | | **1,392,203** | 915,314 | 1,535,687 |

The accompanying notes on pages 11 to 29 form an integral part of these interim condensed financial statements.

The interim condensed financial statements were authorised for issue on 29 April 2013 in accordance with the resolution of the Board of Directors.

**Simon N Cooper**
**Chairman**

**Ewan Stirling**
**Chief Executive Officer**

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**

**Unaudited interim condensed statement of changes in equity for the three months period ended 31 March 2013**

| | Share capital | Legal reserve | Statutory reserve | Available-for-sale fair value reserve | Merger reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| | **RO’000** | **RO’000** | **RO’000** | **RO’000** | **RO’000** | **RO’000** | **RO’000** |
| At 1 January 2012 (refer note 5) | 96,805 | 32,093 | 973 | - | (82,856) | 67,119 | 114,134 |
| Total comprehensive income for the period | | | | | | | - |
| Profit for the period | - | - | - | - | - | 3,000 | 3,000 |
| Other comprehensive income / (expense) for the period | | | | | | | |
| Effect of currency translation | - | - | 46 | - | (46) | - | - |
| Net movement in fair value of available-for-sale investments | | - | - | - | - | 86 | 86 |
| Total other comprehensive income for the period | - | - | 46 | - | (46) | 86 | 86 |
| Total comprehensive income for the period | - | - | 46 | - | (46) | 3,086 | 3,086 |
| Transaction with shareholders, recorded directly in equity | | | | | | | |
| Stock dividend issued for 2011 | 1,210 | - | - | - | (1,210) | - | - |
| At 31 March 2012 | 98,015 | 32,093 | 1,019 | - | (84,112) | 70,205 | 117,220 |
| **At 1 January 2013** | **200,031** | **32,673** | **1,236** | **1,635** | **-** | **58,562** | **294,137** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period | **-** | **-** | **-** | **-** | **-** | **5,742** | **5,742** |
| **Other comprehensive income for the period** | | | | | | | |
| Effect of currency translation | **-** | **-** | **16** | **-** | **-** | **151** | **167** |
| Net movement in fair value of available-for-sale investments | **-** | **-** | **-** | **1,184** | **-** | **-** | **1,184** |
| Total other comprehensive income for the period | | | **16** | **1,184** | **-** | **151** | **1,351** |
| Total comprehensive income for the period | **-** | **-** | **16** | **1,184** | **-** | **5,893** | **7,093** |
| **Transaction with shareholders, recorded directly in equity** | | | | | | | |
| Dividend paid for 2012 | **-** | **-** | **-** | **-** | **-** | **(2,000)** | **(2,000)** |
| **At 31 March 2013** | **200,031** | **32,673** | **1,252** | **2,819** | **-** | **62,455** | **299,230** |

The accompanying notes on pages 11 to 29 form an integral part of these interim condensed financial statements.

**HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.)**

**Unaudited interim condensed statement of cash flows for the three months period ended 31 March 2013**

| | Note | **Three months ended 31 March 2013 RO 000s** | (refer note 5) Three months ended 31 March 2012 RO 000s |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **6,770** | 3,523 |
| Adjustments for: | | | |
| – non-cash items included in profit before tax | | **(1,333)** | 291 |
| – change in operating assets | | **208,116** | (28,331) |
| – change in operating liabilities | | **154,266** | 78,506 |
| – tax paid | | **-** | (2,044) |
| Net cash generated from operating activities | | **367,819** | 51,945 |
| **Cash flows used in investing activities** | | | |
| Purchase of financial investments | | **(1,423,022)** | (560,000) |
| Proceeds from maturity of financial investments | | **1,208,554** | 534,780 |
| Purchase of property, plant and equipment | | **(1,060)** | (31) |
| Effect of currency translation | | **123** | - |
| Net cash used in investing activities | | **(215,405)** | (25,251) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(2,000)** | - |
| Net cash used in financing activities | | **(2,000)** | - |
| **Net change in cash and cash equivalents** | | **150,414** | 26,694 |
| Cash and cash equivalents at the beginning of the period | | **242,343** | 116,582 |
| Cash and cash equivalents at the end of the period | *28* | **392,757** | 143,276 |

The accompanying notes on pages 11 to 29 form an integral part of these interim condensed financial statements

## 1 Legal status and activities

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

As further explained in note 5, on 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. Following the merger, HSBC Bank Middle East Limited ('HBME') holds 51% of the shares in the combined entity. HBME is a subsidiary of 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 financial statements of the Bank at 31 December 2012 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 financial statements of the bank.

### *(c) Comparative information*

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

As further explained in note 5, on 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB. Following the merger, HBME holds 51% of the shares in the combined entity. The merger is accounted for as a reverse acquisition under IFRS 3 – 'Business Combinations' due to HBME acquiring a controlling stake in OIB through the issue of new shares by OIB. Accordingly, OIB is treated as the 'accounting acquiree' and HSBC Bank Middle East Limited, Oman branches are treated as the 'accounting acquirer' for accounting purposes. As a result, the financial statements of HSBC Bank Oman S.A.O.G. are shown as a continuation of the financial statements of HSBC Bank Middle East Limited, Oman branches with one adjustment to reflect the legal capital and statutory reserves of OIB.

## 2 Basis of preparation (continued)

### *(d) Use of estimates and assumptions*

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

### *(e) Future accounting developments*

At 31 March 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these interim condensed financial statements. In addition to the projects to complete financial instrument accounting, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting, which together with the standards described below, could represent significant changes to accounting requirements in the future.

**Standards and Interpretations issued by the IASB**

*Standards applicable in 2014*

In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively.

The Bank is currently assessing these clarifications but it is impracticable to quantify their effect as at the date of approval of these financial statements.

In October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities', which introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating all subsidiaries in its consolidated and separate financial statements. The amendments are effective from 1 January 2014 with early adoption permitted. Based on our initial assessment, we do not expect the amendments to have a material impact on these financial statements.

*Standards applicable in 2015*

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2011, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.

## 2 Basis of preparation (continued)

### *(e) Future accounting developments (continued)*

**Standards and Interpretations issued by the IASB *(continued)***

*Standards applicable in 2015 (continued)*

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting.

The IASB is in the process of amending the requirements for classification and measurement in IFRS 9 to address practice and other issues.

In December 2012, the IASB added the requirements related to general hedge accounting, to IFRS 9 which align hedge accounting more closely with risk management and established a more principle-based approach to hedge accounting while address inconsistencies and weaknesses in the IAS 39 hedge accounting model. The revised hedge accounting requirements are effective for annual periods beginning on or after 1 January 2015 on a prospective basis. The requirements do not address macro hedge accounting, which is still being considered by the IASB. The Bank is currently assessing the impact of the hedge accounting draft standard.

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

## 3 Accounting policies

The accounting policies applied by the Bank in this 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 2012 except for the adoption of IFRS 13 Fair Value Measurement.

IFRS 13 has been applied prospectively from 1 January 2013. The disclosures requirements of IFRS 13 do not require comparative information to be provided for period prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurement required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market condition, and enhance disclosures about fair value measurement.

The change had no material impact on the measurement of the Bank's assets and liabilities. However, the Bank has included new disclosures in these interim financial statements which are required under IFRS 13.

## 4 Products and services

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

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

## 5 Business combination

On 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. As a result of the merger through the issue of new shares in OIB, HBME acquired 51% of the combined entity for a total consideration of RO 151.92m. As HBME acquired a controlling stake in OIB, the merger is accounted for as a reverse acquisition under IFRS 3. For accounting purposes, OIB is treated as the 'accounting acquiree' and HSBC Bank Middle East Limited, Oman branches are treated as the 'accounting acquirer'. Accordingly the financial statements of HSBC Bank Oman S.A.O.G. are shown as a continuation of the financial statements of HSBC Bank Middle East Limited, Oman branches with one adjustment to reflect the legal capital and statutory reserves of OIB. This adjustment was reflected in a 'merger reserve', which was adjusted against retained earnings as at 31 December 2012. The comparative information in these financial statements are those of HSBC Bank Middle East Limited, Oman branches, except for the legal capital and statutory reserves which are of OIB.

The fair values of identifiable assets acquired and the liabilities assumed at 3 June 2012 were as follows:

| | **Fair value recognised on acquisition** | Carrying value immediately prior to acquisition |
|---|---|---|
| | **RO'000** | RO'000 |
| Cash and balances with central banks | **108,344** | 108,344 |
| Derivatives | **1,948** | 1,948 |
| Due from banks | **174,190** | 174,190 |
| Loans and advances to customers – net* | **685,370** | 702,940 |
| Financial investments | **173,977** | 173,977 |
| Other assets * | **120,609** | 120,723 |
| Prepayment and accrued income | **1,120** | 1,120 |
| Property, plant and equipment | **31,405** | 37,038 |
| Intangible assets – core deposit | **12,306** | - |
| Intangible assets – customer relationships | **3,691** | - |
| Deferred tax assets | **3,868** | 950 |
| Due to banks | **(21,281)** | (21,281) |
| Deposits from customers | **(1,014,455)** | ( 1,015,555) |
| Items in the course of transmission to other banks | **(4,519)** | (4,519) |
| Derivatives | **(2,342)** | (242) |
| Other liabilities | **(116,079)** | (116,079) |
| Current tax liabilities | **(563)** | (563) |
| Accruals and deferred income | **(4,428)** | (4,428) |
| Total identifiable net assets | **153,161** | |
| Total consideration transferred | **151,923** | |
| Negative goodwill arising on acquisition | **(1,238)** | |

***** For acquired receivables, the best estimate at the acquisition date of the contractual cash flows not expected to be collected are as follows:

| | **Gross contractual cash flow** | **Cash flow not expected to be collected** |
|---|---|---|
| | **RO'000** | **RO'000** |
| Loans and advances | **746,335** | **60,965** |
| Other assets | **120,723** | **114** |

## 6 Interest income

Interest bearing assets earned interest at an overall annualised rate of **2.81%** for the three months period ended 31 March 2013 (31 March 2012 - 2.82 %).

## 7 Interest expense

For the three month period ended 31 March 2013, the average overall annualised cost of funds was **0.63%** (31 March 2012 – 0.56 %).

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

| | **Three months period ended 31 March 2013 RO'000** | Three months period ended 31 March 2012 RO'000 |
|---|---|---|
| Provided during the period – general (note 12) | **-** | (364) |
| Provided during the period – specific (note 12) | **(1,374)** | (219) |
| Provisions released / written back (note 12) | **3,108** | 61 |
| Adjustments as a result of fair value unwind | **58** | - |
| Reserved interest released (note 12) | **222** | 51 |
| Written-off loans recovered | **520** | 250 |
| Bad debts directly written off to statement of income | **(14)** | - |
| | **2,520** | (221) |

## 9 Other operating expenses

| | **Three months period ended 31 March 2013 RO'000** | Three months period ended 31 March 2012 RO'000 |
|---|---|---|
| Employee compensation and benefits | **(5,203)** | (2,022) |
| General and administrative expenses | **(5,886)** | (2,523) |
| Depreciation of property, plant and equipment | **(616)** | (71) |
| | **(11,705)** | (4,616) |

## 10 Amortisation of intangible assets

| | **Three months period ended 31 March 2013 RO'000** | Three months period ended 31 March 2012 RO'000 |
|---|---|---|
| This represents amortisation of intangible assets as result of business combination accounted for as follows : | | |
| Core deposits intangible | **(440)** | **-** |
| Customer relationships | **(131)** | **-** |
| | **(571)** | **-** |

## 11 Basic earnings per share

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

| | **Three months period ended 31 March 2013** | Three months period ended 31 March 2012 |
|---|---|---|
| Weighted average number of shares in issue ('000) | **2,000,313** | 980,153 |
| Net profit for the period (RO'000) | **5,742** | 3,000 |
| Basic earnings per share – annualised (RO) | **0.011** | 0.012 |

## 12 Loans and advances to customers

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

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Overdrafts | **89,492** | 14,871 | 90,702 |
| Loans | **977,749** | 465,196 | 1,101,998 |
| Bills discounted / purchased | **22,041** | 15,872 | 30,063 |
| Gross loans and advances | **1,089,282** | 495,939 | 1,222,763 |
| Provision for loan impairment - specific | **(13,562)** | (3,315) | (14,625) |
| Provision for loan impairment - general | **(4,952)** | (6,008) | (6,289) |
| Reserved interest | **(5,928)** | (1,403) | (7,406) |
| Net loans and advances | **1,064,840** | 485,213 | 1,194,443 |

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

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Overdrafts | **89,492** | 14,871 | 90,702 |
| Loans | **1,048,396** | 465,196 | 1,172,645 |
| Bills discounted / purchased | **22,041** | 15,872 | 30,063 |
| Gross loans and advances | **1,159,929** | 495,939 | 1,293,410 |
| Provision for loan impairment - specific | **(36,539)** | (3,315) | (37,602) |
| Provision for loan impairment - general | **(14,943)** | (6,008) | (16,280) |
| Reserved interest | **(43,607)** | (1,403) | (45,085) |
| Net loans and advances | **1,064,840** | 485,213 | 1,194,443 |

## 12 Loans and advances to customers (continued)

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

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| 0-5% | **546,269** | 266,359 | 669,783 |
| 5-7% | **250,083** | 149,842 | 233,229 |
| 7-10% | **298,941** | 66,271 | 318,937 |
| 10-13% | **48,555** | 3,966 | 54,844 |
| more than 13% | **16,081** | 9,501 | 16,617 |
| | **1,159,929** | 495,939 | 1,293,410 |

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

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| 0-6 months | **250,467** | 184,372 | 342,119 |
| 6-12 months | **49,126** | 8,631 | 27,472 |
| 1-3 years | **95,358** | 92,590 | 170,880 |
| 3-5 years | **226,146** | 105,015 | 200,316 |
| More than 5 years | **443,743** | 94,605 | 453,656 |
| | **1,064,840** | 485,213 | 1,194,443 |

## 12 Loans and advances to customers (continued)

### Concentration of loans and advances:

Loans and advances to customers by industry sector

| | 31 March 2013 RO'000 | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| **Personal and consumer loans** | **417,432** | 109,238 | 421,211 |
| **Corporate and commercial** | | | |
| Import trade | **135,323** | 104,192 | 178,312 |
| Construction | **68,750** | 17,349 | 69,317 |
| Manufacturing | **173,463** | 83,809 | 187,219 |
| Wholesale and retail trade | **20,335** | 21,460 | 35,060 |
| Export trade | **5,489** | 6,735 | 7,737 |
| Electricity, gas, water, transportation and communication | **107,844** | 5,294 | 132,384 |
| Services | **135,806** | 106,928 | 161,293 |
| Mining and quarrying | **52,654** | 19,041 | 54,065 |
| Others | **36,436** | 21,866 | 40,422 |
| | **736,100** | 386,674 | 865,809 |
| **Financial institutions** | **6,397** | 27 | 6,390 |
| **Total gross loans and advances** | **1,159,929** | 495,939 | 1,293,410 |
| Provision for loan impairment - specific | **(36,539)** | (3,315) | (37,602) |
| Provision for loan impairment - general | **(14,943)** | (6,008) | (16,280) |
| Reserved interest | **(43,607)** | (1,403) | (45,085) |
| **Net loans and advances** | **1,064,840** | 485,213 | 1,194,443 |
| **Non performing loans** | **88,867** | 5,152 | 92,445 |

Of the above gross loans and advances, loans totaling RO 14.1m are held for sale.

Specific provision for loan impairment and reserved interest represent **90.2%** of gross non-performing loans and advances.

## 12 Loans and advances to customers (continued)

**Provision for loan impairment and reserved interest:**

The movement on provision for loan impairment for the three months period ended 31 March 2013 is analysed in the table below:

| | Specific provision RO'000 | General provision RO'000 | Total provision RO'000 |
|---|---|---|---|
| **Balance at 1 January 2013** | **37,602** | **16,280** | **53,882** |
| Currency translation effect on opening balance | **(11)** | **-** | **(11)** |
| Provided during the period (note 8) | **1,374** | **-** | **1,374** |
| Released during the period: | | | |
| -Due to recoveries/write back (note8) | **(1,771)** | **(1,337)** | **(3,108)** |
| Written off during the period | **(655)** | **-** | **(655)** |
| **Balance at 31 March 2013** | **36,539** | **14,943** | **51,482** |

The movement on provision for loan impairment for the three months period ended 31 March 2012 is analysed in the table below:

| | Specific provision RO'000 | General provision RO'000 | Total provision RO'000 |
|---|---|---|---|
| Balance at 1 January 2012 | 3,445 | 5,644 | 9,089 |
| Provided during the period (note 8) | 219 | 364 | 583 |
| Due to recoveries / releases (note 8) | (61) | - | (61) |
| Written off during the period | (288) | - | (288) |
| Balance at 31 March 2012 | 3,315 | 6,008 | 9,323 |

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

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 |
|---|---|---|
| Balance at the beginning of the period | **45,085** | 1,586 |
| Reserved during the period | **2,738** | 214 |
| Released to the statement of income (note 8) | **(222)** | (51) |
| Written off during the period | **(3,994)** | (346) |
| Balance at end of the period | **43,607** | 1,403 |

The estimated fair value of loans and advances is not materially different from the book value of loans and advances, other than as disclosed in note 5.

## 13 Financial investments

Financial investments details are provided as follows:

| | **Fair value** | Fair value | Fair value | **Carrying value** | Carrying value | Carrying va |
|---|---|---|---|---|---|---|
| | **31 March 2013** | 31 March 2012 | 31 December 2012 | **31 March 2013** | 31 March 2012 | 31 Decem 2 |
| | **RO'000** | RO'000 | RO'000 | **RO'000** | RO'000 | RO' |
| **Marketable securities – MSM** | | | | | | |
| Finance | **2,207** | - | 2,092 | **2,207** | - | 2, |
| Insurance | **370** | - | 377 | **370** | - | |
| Services | **397** | - | 405 | **397** | - | |
| Industrial | **41** | - | 44 | **41** | - | |
| Government bonds | **48,272** | 29,948 | 47,998 | **48,272** | 29,948 | 47, |
| Other bonds | **220** | - | 220 | **220** | - | |
| | **51,507** | 29,948 | 51,136 | **51,507** | 29,948 | 51, |
| **Marketable securities – Foreign by Sector** | | | | | | |
| Government securities | **2,881** | - | 3,675 | **2,881** | - | 3, |
| Foreign shares | **3,469** | - | 3,111 | **3,469** | - | 3, |
| | **6,350** | - | 6,786 | **6,350** | - | 6, |
| **Unquoted and other investments** | | | | | | |
| Certificates of Deposits | | | | **825,007** | 300,010 | 610, |
| Unquoted Omani shares | | | | **1,010** | - | 1, |
| Investment fund units | | | | **12,450** | - | 11, |
| | | | | **838,467** | 300,010 | 622, |
| **Total** | | | | **896,324** | 329,958 | 680, |

## 13 Financial Investments (continued)

Details of classification of investments are given below:

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Available-for-sale (AFS) | **896,324** | 329,958 | 680,672 |
| | **896,324** | 329,958 | 680,672 |

**Details of AFS investments are as follows:**

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| **Cost of:** | | | |
| Quoted - Foreign Government securities | **2,881** | - | 3,675 |
| Quoted - Equity and other securities | **889,383** | 329,460 | 674,669 |
| Unquoted investments | **1,010** | - | 1,010 |
| | **893,274** | 329,460 | 679,354 |
| **Revaluation gain of:** | | | |
| Quoted - Equity and other securities | **3,050** | 498 | 1,318 |
| | **896,324** | 329,958 | 680,672 |

## 14 Other assets

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Derivatives - positive mark to market | **959** | 1,408 | 2,108 |
| Prepayments and accrued income | **1,236** | 742 | 960 |
| Deferred tax asset | **4,324** | 1,099 | 4,515 |
| Acceptances | **73,778** | 60,504 | 136,646 |
| Others | **32,287** | 296 | 44,348 |
| | **112,584** | 64,049 | 188,577 |

## 15 Intangible assets

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Customer relationships | **3,691** | - | 3,691 |
| Core deposits | **12,306** | - | 12,306 |
| | **15,997** | **-** | 15,997 |
| Less: amortised | **(1,904)** | - | (1,333) |
| | **14,093** | **-** | 14,664 |

## 16 Property plant and equipment

During the period, an amount of RO 1.1m was added in the property plant and equipment (March 2012 RO 0.31m).

## 17 Deposits

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Deposits details are as follows: | | | |
| Current and call | **1,335,039** | 499,861 | 1,052,671 |
| Savings | **427,022** | 92,838 | 428,009 |
| Time deposits | **347,185** | 231,436 | 363,667 |
| Others | **6,325** | 4,833 | 7,220 |
| | **2,115,571** | 828,968 | 1,851,567 |

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

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| 0-6 months | **937,771** | 383,569 | 772,878 |
| 6-12 months | **414,663** | 148,577 | 308,296 |
| 1-3 years | **137,486** | 50,712 | 165,183 |
| 3-5 years | **132,442** | 48,774 | 156,994 |
| Over 5 years | **493,209** | 197,336 | 448,216 |
| | **2,115,571** | 828,968 | 1,851,567 |

The interest rate bands of deposits are as follows:

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| 0-2% | **1,985,088** | 819,565 | 1,729,891 |
| 2-4% | **125,754** | 2,664 | 116,948 |
| 4-6% | **588** | 6,739 | 694 |
| 6-8% | **261** | - | 133 |
| 8-10 % | **3,612** | - | 3,353 |
| more than 10% | **268** | - | 548 |
| | **2,115,571** | 828,968 | 1,851,567 |

## 18 Other liabilities

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Derivatives - negative mark to market | **2,189** | 1,401 | 3,221 |
| Deferred tax liability | **873** | - | 721 |
| Retirement benefit liability | **936** | 6,522 | 1,078 |
| Acceptances | **73,778** | 60,504 | 136,646 |
| Tax liability | **3,208** | 3,400 | 2,414 |
| Accruals and deferred income | **2,264** | 1,594 | 2,920 |
| Others | **28,984** | 4,820 | 73,942 |
| | **112,232** | 78,241 | 220,942 |

## 19 Contingent liabilities, commitments and derivatives

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Forward forex contracts – sales | **40,316** | 40,557 | 131,533 |
| Forward forex contracts – purchases | **42,250** | 40,565 | 133,100 |
| Currency Swaps | **136,066** | - | 136,479 |
| Options | **-** | 2,566 | 3,594 |
| Interest rate swaps | **21,965** | 30,636 | 21,965 |
| Undrawn unconditionally cancellable commitments | **698,096** | 430,590 | 667,840 |
| Undrawn unconditionally non-cancellable commitments | **18,947** | 19,937 | 19,717 |
| | **957,640** | 564,851 | 1,114,228 |

As at 31 March 2013, 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 it therefore does not consider it necessary to make any additional provisions in this regard.

## 20 Basis of valuing financial assets and liabilities measured at fair value

| | | Valuation techniques | | |
|---|---|---|---|---|
| | **Quoted market price** | **Using observable inputs** | **With significant unobservable inputs** | **Total** |
| | **Level 1** | **Level 2** | **Level 3** | |
| | **RO'000** | **RO'000** | **RO'000** | **RO'000** |
| **At 31 March 2013** | | | | |
| **Assets** | | | | |
| Derivatives | **-** | **959** | **-** | **959** |
| Financial investments: available-for-sale | **9,298** | **886,016** | **1,010** | **896,324** |
| **Liabilities** | | | | |
| Derivatives | **-** | **2,189** | **-** | **2,189** |
| At 31 March 2012 | | | | |
| Assets | | | | |
| Derivatives | - | 1,408 | - | 1,408 |
| Financial investments: available-for-sale | - | 329,958 | - | 329,958 |
| Liabilities | | | | |
| Derivatives | - | 1,401 | - | 1,401 |

The carrying value of assets measured in level 3 of the fair value hierarchy approximates to fair value. There is no change in the fair value of these assets during the period (IFRS 13).

There has been no change to the basis of valuation of level 2 and level 3 financial assets and liabilities disclosed in the latest audited financial statements of the Bank.

## 21 Asset liability mismatch

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

| | **31 March 2013** | | | 31 March 2012 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Maturities** | **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 | **1,557,592** | **1,083,762** | **473,830** | 699,850 | 482,977 | 216,873 | 1,415,849 | 1,046,295 | 369,554 |
| 6-12 months | **93,985** | **420,753** | **(326,768)** | 16,296 | 151,576 | (135,280) | 46,012 | 308,287 | (262,275) |
| 1-3 years | **137,379** | **137,486** | **(107)** | 95,206 | 50,712 | 44,494 | 217,297 | 165,177 | 52,120 |
| 3-5 years | **261,810** | **132,442** | **129,368** | 137,480 | 48,774 | 88,706 | 214,111 | 156,994 | 57,117 |
| more than 5 years | **510,418** | **786,741** | **(276,323)** | 96,536 | 311,329 | (214,793) | 519,547 | 736,063 | (216,516) |
| | **2,561,184** | **2,561,184** | **-** | 1,045,368 | 1,045,368 | - | 2,412,816 | 2,412,816 | - |

## 22 Exposure to credit risk

| | **Loans and advances (As per CBO)** | | | **Due from banks** | | | **Financial investments** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **31 March 2013** | 31 March 2012 | 31 December 2012 | **31 March 2013** | 31 March 2012 | 31 December 2012 | **31 March 2013** | 31 March 2012 | 31 December 2012 |
| | **RO'000** | RO'000 | RO'000 | **RO'000** | RO'000 | RO'000 | **RO'000** | RO'000 | RO'000 |
| Individually impaired - non performing | **88,867** | 5,152 | 92,445 | **-** | - | - | **-** | - | - |
| Provision for loan impairment - specific and reserved interest | **(80,146)** | (4,718) | (82,687) | **-** | - | - | **-** | - | - |
| Carrying amount of non-performing | **8,721** | 434 | 9,758 | **-** | - | - | **-** | **-** | **-** |
| Past due and not impaired | **43,310** | 4,459 | 21,471 | **-** | - | - | **-** | - | - |
| Neither past due nor impaired | **1,027,752** | 486,328 | 1,179,494 | **194 563** | 117,924 | 183,858 | **896,324** | 329,958 | 680,672 |
| Allowance for collective impairment | **(14,943)** | (6,008) | (16,280) | **-** | - | - | **-** | - | - |
| Total carrying amount | **1,064,840** | 485,213 | 1,194,443 | **194,563** | 117,924 | 183,858 | **896,324** | 329,958 | 680,672 |

## 23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (31 March 2012 – 980,153,267 shares of RO 0.100 each) against the authorised share capital of 7,500 million shares of RO 0.100 each (31 March 2012 – 1,000 million of shares of RO 0.100each)

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

**Major Shareholder**

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

| | | **31 March 2013 Number of shares** | 31 March 2012 Number of shares | 31 December 2012 Number of shares |
|---|---|---|---|---|
| 1 | HSBC Bank Middle East Limited | **1,020,159,523** | - | 1,020,159,523 |
| 2 | H.E. Dr. Omar Bin Abdul Muneim Al Zawawi | - | 98,702,140 | - |

## 24 Reserves

(a) Legal reserve

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

(b) Statutory reserve

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

(c) Merger reserve

The merger reserve arises from the application of the principles of reverse acquisition accounting for the business combination of HSBC Bank Middle East Limited Oman branches and OIB in June 2012. In accordance with IFRSs the acquisition has been accounted for as a reverse acquisition as explained in note 5.

(d) Available-for-sale fair value reserve

Available-for-sale fair value reserve represents fair value changes 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 includes 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.

## 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:

| | **Significant shareholder - HSBC and related group entities** | **Directors** | **Key management personnel** | **Others** | **Total** |
|---|---|---|---|---|---|
| **31 March 2013** | **RO'000** | **RO'000** | **RO'000** | **RO'000** | **RO'000** |
| Loans and advances | **-** | **-** | **220** | **16,941** | **17,161** |
| Current, deposit and other accounts | **-** | **86** | **-** | **36,139** | **36,225** |
| Letters of credit and guarantees | **-** | **-** | **-** | **7,852** | **7,852** |
| Provision for loans and advances | **-** | - | - | - | **-** |
| Due from banks | **32,889** | - | - | - | **32,889** |
| Due to banks | **15,336** | - | - | - | **15,336** |
| **For the period ended 31 March 2013** | | | | | |
| Net fee income | **88** | - | - | - | **88** |
| Other operating expenses: | **(2,883)** | **(3)** | **(666)** | **(36)** | **(3,588)** |
| Purchase of property and equipment | **-** | **-** | **-** | **19** | **19** |

| | Significant shareholder - HSBC and related group entities | Directors | Key management personnel | Others | Total |
|---|---|---|---|---|---|
| 31 March 2012 | RO'000 | RO'000 | RO'000 | RO'000 | RO'000 |
| Loans and advances | - | | 145 | | 145 |
| Current, deposit and other accounts | - | - | - | - | - |
| Letters of credit and guarantees | - | - | - | - | - |
| Provision for loans and advances | - | - | - | - | - |
| Due from banks | 3,910 | - | - | - | 3,910 |
| Due to banks | 6,291 | - | - | - | 6,291 |
| For the period ended 31 March 2012 | | | | | |
| Net fee income | - | - | - | - | - |
| Other operating expenses | (1,449) | | (490) | | (1,939) |

Related party loans and advances bear interest at rates between 3.25% p.a. to 8% p.a. Related party deposits bear interest at rates between 0.25% p.a.to 1.25% p.a.

## 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 2012.

### Geographical areas

A geographical analysis of key financial data by location of primary assets as at 31 March 2013 is set out below:

| **31 March 2013** | **Oman RO'000** | **Others RO'000** | **Adjustments RO'000** | **Total RO'000** |
|---|---|---|---|---|
| Net operating income before loan impairment charges and other credit risk provisions | **16,456** | **70** | **-** | **16,526** |
| Loan impairment charges and other credit risk provisions – net of recoveries | **2,483** | **37** | **-** | **2,520** |
| Net operating income | **18,939** | **107** | **-** | **19,046** |
| Total Operating Expenses | **(11,952)** | **(324)** | **-** | **(12,276)** |
| Profit before tax | **6,987** | **(217)** | **-** | **6,770** |
| Tax expense | **(954)** | **(74)** | **-** | **(1,028)** |
| Profit for the period | **6,033** | **(291)** | **-** | **5,742** |
| Loans and advances to customers (net) | **1,064,266** | **574** | **-** | **1,064,840** |
| Total assets | **2,551,697** | **35,756** | **(26,269)** | **2,561,184** |
| Deposits from customers | **2,102,533** | **13,038** | **-** | **2,115,571** |
| Total liabilities | **2,255,939** | **15,709** | **(9,694)** | **2,261,954** |

A geographical analysis of key financial data by location of primary assets as at 31 March 2012 is set out below:

| 31 March 2012 | Oman RO'000 | Others RO'000 | Adjustments RO'000 | Total RO'000 |
|---|---|---|---|---|
| Net operating income before loan impairment charges and other credit risk provisions | 8,360 | - | - | 8,360 |
| Loan impairment charges and other credit risk provisions – net of recoveries | (221) | - | - | (221) |
| Net operating income | 8,139 | - | - | 8,139 |
| Total operating expenses | (4,616) | - | - | (4,616) |
| Profit before tax | 3,523 | - | - | 3,523 |
| Tax expense | (523) | - | - | (523) |
| Profit for the period | 3,000 | - | - | 3,000 |
| Loans and advances to customers (net) | 485,213 | - | - | 485,213 |
| Total assets | 1,045,368 | - | - | 1,045,368 |
| Deposits from customers | 828,968 | - | - | 828,968 |
| Total liabilities | 928,148 | - | - | 928,148 |

### Business Line segment

Information regarding products and services are discussed in note 4 to these unaudited condensed financial statements. The results of each reportable segment have been presented in the financial statements as of 31 December 2012.

## 27 Capital adequacy ratio

Details of capital adequacy, calculated in accordance with the norms prescribed by the Bank for International Settlements (BIS), are given below:

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| Tier I and tier II capital | **288,020** | 118,675 | 288,020 |
| Risk-weighted assets | **1,631,764** | 723,102 | 1,796,589 |
| Capital adequacy ratio % | **17.65%** | 16.41% | 16.03% |

## 28 Cash and cash equivalents

| | **31 March 2013 RO'000** | 31 March 2012 RO'000 | 31 December 2012 RO'000 |
|---|---|---|---|
| *Unaudited interim condensed balance sheet comprise:* | | | |
| Cash and balances with central banks | **248,230** | 46,791 | 120,540 |
| Due from Banks | **194,563** | 117,924 | 183,858 |
| Due to Banks | **(34,151)** | (20,939) | (46,170) |
| | **408,642** | 143,776 | 258,228 |
| Adjustment for items maturing after three months from date of acquisition and restricted balances | **(15,885)** | (500) | (15,885) |
| | **392,757** | 143,276 | 242,343 |
| *Cash and cash equivalent comprise:* | | | |
| Cash and balances with central banks | **232,345** | 46,291 | 104,655 |
| Due from Banks | **194,563** | 117,924 | 183,858 |
| Due to Banks | **(34,151)** | (20,939) | (46,170) |
| Total | **392,757** | 143,276 | 242,343 |