HSBC Bank Oman S.A.O.G.

Annual Report and Accounts 2015

HSBC

Welcome to HSBC Bank Oman's Annual Report for 2015.

The theme of this year's report is inspired by
Oman's 45th National Day.
All the paintings, photographs and handicrafts featured
were created by the staff for a National Day exhibition held
at the Bank's head office in November 2015.

Painting by: Shakir Jalal Al Balushi. Head of Business Development - RBWM

His Majesty Sultan Qaboos bin Said

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Board of Directors

Dr. Juma Ali Juma Al Juma
Senior Independent Director

Waleed Omar Al Zawawi
Deputy Chairman and Director

David Gordon Eldon
Chairman

HSBC Bank Oman S.A.O.G.

Abdulfattah Sharaf
Director

Aimen Ahmed Sultan Al Hosni
Director

Robert Adrian Underwood
Director

Robin Dougles Jones
Director

Management Team

Ali Al Abri
General Manager,
Human Resources

Iain Morrison,
General Manager,
Commercial Banking

Sulaiman Al Lamki
General Manager
and Chief Risk Officer

Andrew P Long
Chief Executive Officer

David Fisk
Head of Communications

Baha Uddin
General Manager
Financial Crime Compliance

Biju Thottingal
General Manager, Legal

Ahmed El Damaty
General Manager and Chief Financial Officer

Abdul Qader Al Sumali
General Manager, Retail Banking & Wealth Management

Saud Al Shidhani
Chief Operating Officer

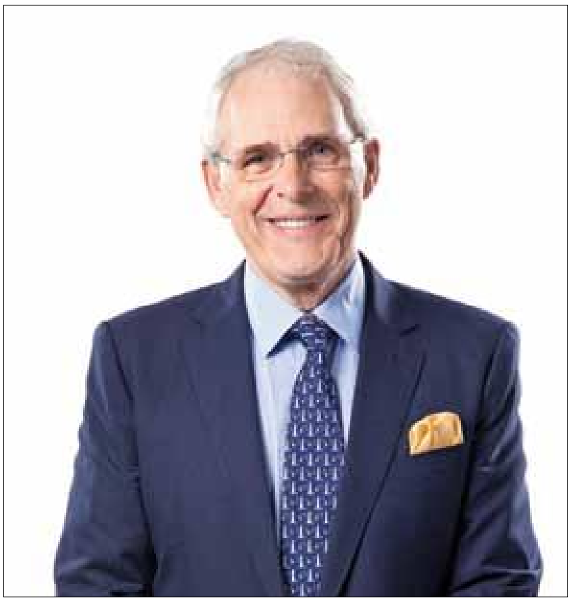
Mumtaz Yousuf
General Manger and Treasurer, Global Markets

Lalit Mehta
General Manager, Regulatory Compliance & Financial Crime Compliance

Adel Ayad Attia
General Manager, Audit

Gopal Lohiya
Company Secretary

Board of Directors' Report for the year ended 31 December 2015



Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your Bank's full year financial results for 2015.

2015 was a challenging year with strong competition in the market coupled with the pressures of managing in a new environment of low oil prices. We continued to focus on our three strategic objectives of growing revenues, streamlining our processes and procedures, and implementing the highest global standards to protect the Bank, our shareholders and our customers against the risks of financial crime.

Our approach to customer service received a particular focus through our ongoing "absher" campaign that seeks to nurture a heightened sense of commitment and ownership towards customers and our colleagues within the Bank, as we look to truly differentiate ourselves from our competitors.

Economic overview

As anticipated by the Government of Oman in its 2015 budget, government revenues for the past year saw a marked reduction over 2014 given the continued low oil prices leading to a fiscal deficit for the Sultanate. The strength of the country's balance sheet has enabled the deficit to be funded through reserves (53%) and borrowings (47%).

Banks in Oman have continued to report strong financial indicators in terms of asset quality, provision coverage, capital adequacy and profitability. Reflecting strong domestic demand, the banking sector, from September 2014 to September 2015, recorded growth of 16.4 per cent in total assets.

The announced budget for 2016, along with the country's final five-year plan as part of its Oman 2020 Vision, reflects the challenging oil market and adopts a prudent view to revenues over the next five year cycle. Non-essential expenditure has been curtailed with a greater focus on investment spending and support to non-oil based sectors.

Performance Summary

Our 2015 performance shows a 5.7% increase in net profit for the year ended 31 December 2015 of RO12.9m compared to RO12.2m for the year ended 31 December 2014. Profit grew due to an increase in net operating income before loan impairment charges and a reduction in operating expenses.

Net operating income before loan impairment charges increased by 3.5% to RO73.5m due to higher net interest income and other operating income.

Net interest income marginally increased by 0.6% to RO49.2m for the period ended 31 December 2015, due to an increase in Corporate loans and advances. Net fee income stood at RO12.5m in comparison to RO12.6m for the year ended 31 December 2014. Other operating income increased to RO4.5m, compared to RO1.5m for the year ended 31 December 2014, due to a gain on sale of HBON's India operations of RO0.8m and the net gain on the sale of non-core investments of RO4.6m which were partly offset by the loss on sale of HBON's Pakistan operations of RO1.2m.

A net charge of RO3.4m has been reported for loan impairment charges (RO2.9m in 2014) arising mainly from Retail specific provisions of RO3.7m. These were partly offset by a net release of RO0.3m from Corporate provisions.

Operating expenses fell by 1.1% to RO54.7m due to firm cost control as well as prior year one-off expenses not being repeated in 2015.

Loans and advances, net of provisions and reserved interest, as at 31 December 2015 grew by 3.4% to RO1,200.8m due to an increase in corporate loans and advances. Customer deposits fell by 2.7% to RO1,802.3m.

HBON's Capital Adequacy ratio stood at 19.4% for the year ended 31 December 2015 compared to 18.2% for the year ended 31 December 2014, representing a continuing strong capital base for future growth.

The Board of Directors proposes a total cash dividend of RO7.8m, with a dividend pay-out ratio of 60%.

Board of Directors' Report for the year ended 31 December 2015

Delivering the best customer experience

In 2015, several campaigns were introduced for our retail customers. We started the year with a multi-proposition campaign, "The Big Start". This was supplemented by the launch of new wealth management products and the implementation of process improvement initiatives that enabled us to enhance the level of customer service we can provide. For example, we improved the turnaround time to process a mortgage application by 66% (from 40 days to 14 days), with a programme to reduce this processing period to best in class within the Sultanate.

Digital remains an important part of our strategy. During the year, we expanded our already comprehensive digital banking proposition for retail customers with the launch of the HSBC Entertainer App, '3D Secure', that allows our customers to use both their debit and credit cards for online purchases with an additional layer of security, and we also launched an updated version of our Mobile Banking application. In support of these initiatives we ran a targeted campaign across branches – "Digital Week" – to spread greater awareness of the Bank's digital banking services for customers.

Throughout the year we saw improvements in the Customer Recommendation Index in our key customer segment of Premier, increasing from 49% in 2014 to 89% in 2015, reflecting enhanced levels of satisfaction with their overall banking experience.

In Commercial Banking we continued to demonstrate our support to SMEs (Small and Medium Enterprises) by doubling the size of our International Growth Fund, committing another RO 20 million to international and internationally aspirant SMEs in Oman. We have been delighted with the level of interest we have received since the launch of our initial fund in 2014. Over the last year, the fund has been fully allocated to sectors such as oil and gas and its associated services, construction and general trading. We also delivered three 'Growth Series' seminars during the year, which were well received by our SME clients.

In October we were also delighted to receive the Euromoney Award for the 'Best Cash Management Bank in Oman' for the 4th consecutive year, again demonstrating the strength of our Payments and Cash Management services.

Our operations in India and Pakistan

In March 2015, we announced that HSBC Bank Oman had completed the sale of its two branches in India to Doha Bank. In addition, in November 2015 we confirmed that the Bank had completed the sale of its banking business in Pakistan to Meezan Bank Limited. This finally concludes the work to dispose of the Bank's overseas operations.

Investing in our people

We remain committed to supporting the national people agenda and are proud to have achieved an Omanisation rate of above 93% by the end of 2015.

Throughout the year we implemented training programmes that demonstrated our commitment to developing local Omani talent by providing them with the tools to thrive in their careers at HSBC Bank Oman. In addition, staff completed over 1,900 learning days through classroom Instructor-led training as well as various e-learning modules. We also maintained a strong focus on Compliance-related training, where staff continued to receive tailored courses to enhance how they interact with customers in the area of financial crime compliance.

We were proud to be one of the first banks in Oman to implement a "Branch Manager Certification Programme", in coordination with the College of Banking and Financial Studies. We also partnered with organisations including Outward Bound Oman, through which we provided opportunities for staff to develop their leadership capabilities.

Contributing to the communities we serve

As a proud local bank we undertook several Corporate Sustainability (CS) activities during the year that aimed to fulfil our commitment to the communities in which we operate, focused primarily on educational and environmental initiatives. A few examples of these follow.

The Bank held its final Kids Read event following completion of this five-year programme with the British Council. A highlight of the year was the "HSBC Young Omani Author Awards", which recognised the talents of Omani short story writers and helped tap into the creativity and talent of young national writers.

The Bank also partnered with the British Council and the Public Authority of SMEs Development (Riyada) to design and deliver the "Springboard Programme". This was provided to 32 young Omani female entrepreneurs in Muscat, with the three-day programme seeking to equip delegates with new skills to help them achieve personal and professional growth.

Board of Directors' Report for the year ended 31 December 2015

Conclusion

In 2016, the environment for banking remains challenging. A continuing period of low oil prices will likely weigh heavily on consumer sentiment. However, we are confident that HSBC Bank Oman is well positioned, with a strong capital base and prudent risk appetite, to face the challenges that lie ahead. We will continue to focus on our strategic objectives and on delivering the level of experience our customers expect from us.

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

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

David Eldon
Chairman

Photo by: Adnan Mohammed Al Asfoor, Cheques Team Leader - Service Delivery pwc

REPORT OF FACTUAL FINDINGS
TO THE SHAREHOLDERS OF HSBC BANK OMAN SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular number 16/2003, dated 29 December 2003 with respect to the Board of Directors' Corporate Governance Report of **HSBC Bank Oman SAOG** ('the bank') as at and for the year ended 31 December 2015 and application of the corporate governance practices in accordance with CMA Code of Corporate Governance issued under Circular number 11/2002 dated 3 June 2002 and as supplemented by the Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading approved by Administrative Decision number 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision number 1/2009 dated 18 March 2009 (collectively the Code and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as stated in Circular number 16/2003, were performed solely to assist you in evaluating the bank's compliance with the code as issued by the CMA.

We report our findings on the procedures performed in the following paragraph.

We found the Board of Directors' Corporate Governance report reflects the bank's application of the provisions of the code and additional regulations and disclosures and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Corporate Governance Report.

Had we performed additional procedures or had we performed an audit or a review of the Corporate Governance Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance Report included in its annual report for the year ended 31 December 2015 and does not extend to any financial statements of HSBC Bank Oman SAOG taken as a whole.

3 March 2016
Muscat, Sultanate of Oman

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Corporate Governance Report
For the Annual Report 2015

'To be where the growth is, connecting customers to opportunities; to enable businesses to thrive and the economy of the Sultanate of Oman to prosper; to help people fulfill their hopes and dreams and realise their ambitions.'

HBON mission and vision (purpose) statement

1. Values

1.1 The Board of HSBC Bank Oman S.A.O.G. ('HBON'/'the Bank') is committed to the highest standards of corporate governance in order to create long-term value for its stakeholders, achieve HBON's strategic goals, and to position HBON as Oman's leading bank.

1.2 HBON's value proposition is:

- To be dependable and do the right thing;
- To be open to different ideas and cultures; and
- To be connected to customers, communities, regulators and each other.

1.3 HBON's values are based on sound business principles including:

- Financial Strength - maintain capital strength and liquidity;
- Risk Management - be enterprising and commercial, understand and be accountable for the impact of our actions, take prudent decisions;
- Speed - be fast and responsive, make principles-led decisions;
- Performance focused - drive market competitive levels of performance, act with urgency and intensity, prioritise, and simplify;
- Efficiency - focus on cost discipline and process efficiency;
- Quality - pursue excellence;
- Customer focus - provide outstanding customer experience;
- Integrated - align HBON with the standards of the rest of the HSBC Group to ensure a seamless, integrated service for all stakeholders; and
- Sustainability - take a long-term outlook; understand impact of actions on stakeholders, brand and reputation.

2. Governance philosophy

2.1 HBON's governance philosophy is based on the following principles:

- An effective and accountable board of directors;
- A clear and strategic direction for business development;
- Prudent accounting principles and information;
- Sound decision-making mechanisms;
- Strategy-linked performance evaluation; and
- Human resource development.

2.2 HBON's governance philosophy is embodied in the way HBON works and how good corporate governance is applied to ensure that HBON:

- Has robust structures and procedures;
- Takes account of the needs and interests of all stakeholders; and
- Takes decisions in a balanced and transparent manner.

2.3 HBON seeks to apply best practice in corporate governance through clear values based on sound business principles, a governance philosophy embodied in the way HBON works and through complying with the letter and spirit of:

- The law;
- The Capital Market Authority ('CMA') Oman Code of Corporate Governance for Public Listed Companies, as amended from time to time, ('Code');
- The regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman ('CBO'); and
- The HSBC Group global standards, including the HSBC Corporate Governance Code.

2.4 The Board has implemented a Corporate Governance Framework ('Framework') which meets all local Oman regulations, embodies international best practice and encompasses HSBC Group global standards. The Framework is reviewed annually and periodically updated as required. The Framework sets out the matters reserved to the shareholders, to the Board and to the executive management team ('Management').

3. Board of Directors - nominations & duties

3.1 The current Board consists of seven members and all members are non-executive and independent.

3.2 The term of the current Board commenced on 30 March 2015 for a period of three years. The next Board election will be in 2018, unless required earlier under the provisions of the law and HBON's Articles of Association ('Articles').

3.3 Any vacancy arising due to the resignation of any director may be filled temporarily by the Board, subject to re-election at the next Annual General Meeting ('AGM'). Anyone wishing to be nominated for the position of Director must:

- Meet all legal requirements, to include those set out in the Commercial Companies Law and the Articles; and
- Submit an application form (in the pro-forma template issued by the Capital Market Authority) at least two days before the general meeting at which the election of Directors will take place.

3.4 The Board shall recommend suitable names to the shareholders for election as Directors in the context of the perceived needs of the Board. This does not affect the freedom of shareholders to vote for any candidate(s).

3.5 The HBON Legal Advisor shall review eligibility and correctness of the applications and compliance with laws and regulations. As required by Ministerial Decision No. E/53/2008, HBON shall file the elected Directors forms together with the Minutes of the AGM with the CMA within the period specified by law.

3.6 The duties and function of the Board are defined in the Framework and are governed by all relevant laws, regulations and the Articles, to include the Banking Law, the CBO regulations, the Commercial Companies Law, and Article 5 of the Code.

3.7 The Chairman of the Board and the CEO are separate and their roles clearly defined.

4. Board of Directors - characteristics and core competency

4.1 HBON is committed to ensuring that each of the seven directors on the Board possesses the following characteristics:

- High ethical standards and integrity in their personal and professional dealings;
- High intelligence and wisdom, which is applied to make sound decisions;
- Capacity to read and understand financial statements;
- Potential to contribute towards the effective stewardship of HBON;
- The ability to perform to a high standard during periods of short and long term pressure;
- Capacity to approach others assertively, responsibly and cooperatively;
- Capacity to activate and consult employees of HBON to reach high standards of management.

4.2 The Board as a whole strives to achieve the following core competency, with each candidate contributing at least in one domain:

- Skills to motivate high performing talent;
- Strategic insight and ability to direct by encouraging innovation and continuously challenging the organisation to sharpen its vision;
- Expertise in financial and corporate finance;
- The ability to understand management trends in general; and also to understand the banking industry locally and globally;
- To acquire and maintain appropriate and relevant industry specific knowledge;
- To acquire and maintain business expertise in international markets.

4.3 The following table sets out the qualifications and biography of the Board members.

Corporate Governance Report (continued)
For the Annual Report 2015

Name & Category	Biography
Directors in office	
David Gordon Eldon *Chairman & independent non-executive director* *Qualification(s):* Honorary Doctor of Business Administration from University of Hong Kong Justice of the Peace Fellow of the Chartered Institute of Bankers (FCIB)	Entered banking in 1964, undertaking a wide variety of banking and executive management roles in UK, Middle East and Asia. Became a General Manager of HSBC Group in 1990, an Executive Director of the Hongkong and Shanghai Banking Corporation Limited in 1994, its Chief Executive Officer in 1996 and its Chairman in 1999. In 1996 became Chairman of Hang Seng Bank, and a director of HSBC Holdings plc on 1 January 1999. He retired in 2005. Since 2011, Director and Non- Executive Chairman of HSBC Bank Middle East Limited, and since 2012 Chairman HSBC CMB Global Risk committee. Chairman of Octopus Holdings Ltd. in Hong Kong, Vice Chairman of Singapore Listed Noble Group Limited, a member of the Government of Dubai's International Financial Centre Higher Board and until December 2012 consultant to the Office of the President of South Korea. Past Chairman of the Hong Kong General Chamber of Commerce, and the Seoul International Business Advisory Committee. Adviser to Singapore-based Southern Capital Group, and Hong Kong-based New Lily International Group. He holds a number of Government and Community Appointments in Hong Kong. DHL/SCMP Hong Kong Business Person of the Year 2003: 2004 awarded the Gold Bauhinia Star (GBS) by the Government of Hong Kong SAR, 2005 made a Commander of the British Empire (CBE) for his contribution to banking and awarded Honorary Citizenship of Seoul in recognition of his work for the city. In 2005 awarded the Asian Banker Lifetime Achievement Award, and in 2011 conferred an Honorary Doctorate by the Hong Kong Academy for Performing Arts.
Brig. (Retd.) Waleed Omar Al Zawawi *Deputy Chairman & independent non-executive director* *Qualification(s):* *Masters from Kings College – London (United Kingdom) – 2007* *Graduated from The Royal College of Defence Studies (United Kingdom) – 2006* *Graduated from Camberly (United Kingdom) – 1992* *Graduated from Sandhurst (United Kingdom) – 1982*	Director on the Board of various companies in Oman (since 1984), and abroad including on the Board of Oman International Bank SAOG since 1996 to end May 2012. Currently, Deputy Chairman of HSBC Bank Oman SAOG with effect from 31 May 2012. Served in the Oman Armed Forces for 30 years.

Corporate Governance Report (continued)
For the Annual Report 2015

Name & Category	Biography
Directors in office	
Dr. Juma Ali Juma Al Juma *Independent senior non-executive director* *Qualification(s):* *PhD in Political Science*	Worked with the Royal Office from 1982 to 1996; General Secretary of the Tender Council from 1996 to 2001; Minister of Manpower from 2001 to 2008: and the Chairman of Oman Airports Maintenance Company SAOC from 2010 to 2015.
Aimen Ahmed Sultan Al Hosni *Independent, non-executive director* *Qualification(s):* *Masters in Public Administration* *Bachelor in Political Science*	Al Hosni is the Chief Executive Officer of Oman Airports Management Company (OAMC) after handling the position of Muscat international Airport as General Manager for more than 3 years. In addition, Al Hosni is the Chairman of Oman National Engineering and Investment Co. SAOG and Muscat National Holding Company SAOG and a Board Member of Oman Telecommunications Co. SAOG. For the last twenty years of a professional career path, Al Hosni has been leading different organisations holding executive positions in various sectors such as Banking, Telecommunications, Services and Insurance. Al Hosni has served OAMC with his past 20 years of experience in different sectors on both an international and local level. He has achieved to create and bring significant work environment and knowledge as he led major projects not only during his former position as Muscat International Airport General Manager such as Phase 1 opening of New Muscat International Airport and Solar Impulse 2 reception in its first leg in Muscat. But also in his current position as CEO, he led the opening of new Salalah Airport. As OAMC CEO, he is working with a promise to make Oman Airports a world-class airports and the connecting link between the east and west of the World. OAMC is managing and operating Muscat International and Salalah Airports, and other regional airports in Sohar and Duqm.
Abdulfattah Sharaf *Independent, non-executive director* *Qualification(s):* *Graduate of the University of Denver, USA*	Abdulfattah Sharaf is a Group General Manager and the Chief Executive Officer, United Arab Emirates, a Board Member of HSBC Bank Middle East Limited (HBME) and HSBC Bank Oman S.A.O.G. (HBON). Prior to his appointment as CEO UAE, he was the CEO Personal Financial Services, Middle East and North Africa, and responsible for all of HSBC's Retail Banking business in the MENA region. He was also a Board member of HSBC Saudi Arabia Limited (IBSA). Before joining HSBC Bank Middle East Limited, Abdulfattah was Chief Executive Officer of NBD Securities, a subsidiary of Emirates NBD. Abdulfattah is currently a member of the Higher Board of the Dubai International Financial Centre (DIFC) and a Board member of the Emirates Telecommunications Corporation (Etisalat) and Noor Dubai Foundation. He is also a member of the Advisory Board Council of the American University of Sharjah's School of Business and Management and a Board Member of the Emirates Golf Federation.

Name & Category	Biography
Directors in office	
Rob Underwood *Independent, non-executive director* *Qualification(s):* *BSc Economics and Politics, Bath University, Bath, UK* *Associate of Chartered Institute of Bankers, London, UK*	From 1987 to 2000: Various roles in HSBC Group in London, Hong Kong and Saudi Arabia covering Credit Risk, Credit Training, Corporate Lending and Specialised Industries and Shipping Lending. From November 2000 to February 2004: was Senior Manager, Group HR. From February 2004 to September 2007 was CEO of HSBC Chile. From September 2007 to February 2010 was Head of Wholesale Risk for HSBC Latin America based in Mexico. From February 2010 to June 2014 was Regional Head of Wholesale and Market Risk, HSBC Middle East, and from June 2014 to date is Chief Risk Officer, HSBC Middle East and North Africa based in Dubai.
Robin D. Jones *Independent, non-executive director* *Qualification(s):* *Fellow member of the Chartered Association of Certified Accountants*	Robin joined HSBC Bank Middle East in October 2013 as Deputy CEO MENA and Head of Strategy & Planning MENA, from HSBC Bank plc, London, where he was Chief Risk and Administration Officer from July 2011 to September 2013, reporting to HSBC Group Chief Operating Officer. In this capacity Robin ensured we proactively manage Risk and Quality across all HSBC Operations, Services and Technology (HOST) functions. In addition, he was responsible for operational support to ensure key governance processes operate effectively. Robin also oversaw cross HOST programmes such as OE, Recovery and Resolution, Comet, Global Transaction Team and Data Strategy. Prior to his role in the London Robin was seconded to Saudi British Bank as Executive Director and Chief Operating Officer. In addition to his current responsibilities as Deputy CEO, Robin is also Head of Strategy & Planning and HOST in MENA. In this role Robin is proactively engaged with Country CEOs and COOs to drive business performance in accordance with HSBC's global standards and values. Robin joined HSBC in 1994 and has worked in Canada, Australia, USA, and the UK, including roles in Global Banking & Markets as Global Head of Re-Engineering and Chief Operating Officer from October 2006 to March 2009.
Relinquished the office on 30 March 2015	
David Kotheimer *Independent, non-executive director* *Qualification(s):* *Master of Business Administration degree from Thunderbird School of Global Management in Glendale, Arizona; Bachelor of Arts degree in political science from the University of Pittsburgh in Pittsburgh, Pennsylvania*	Deputy CEO & Chief Operating Officer, HSBC United Arab Emirates located in Dubai from March 2014. Previously Regional Head of Strategy & Planning and Head of International for the HSBC Group's Middle East and North Africa (MENA) Region from January 2012 to March 2014; formerly Deputy CEO for HSBC Brazil located in São Paulo from July 2009 to January 2012, responsible for several businesses and functions within the Brazilian operations including Legal, Human Resources, Compliance, Marketing, Planning, Private Banking and Asset Management.

4.4 The composition of the Board and its skill base is kept under continual review and a Board Evaluation is conducted on an annual basis. Board induction and training is provided on a regular basis, and includes training on relevant legal, regulatory and financial affairs.

5. Information given to the Board

5.1 The Framework sets out the matters reserved to the Board, and to the shareholders.

5.2 All Board members receive comprehensive and timely information to enable them to perform their duties.

5.3 All annual and interim financial statements, price sensitive public reports and the reports to the regulators prepared by the Board contain a balanced and understandable assessment.

5.4 The Board is aware of its responsibilities for preparing the accounts.

5.5 The Board ensures effective internal control in all areas of HBON's operations, including financial, operations-related, compliance and risk management.

5.6 The Board has adopted a transparent policy in the matter of relationship with the external auditors, particularly in relation to any award of non-audit related work. The overriding principle is that the external auditors are (and are seen to be) independent in exercising their duties.

5.7 HBON follows internal policies to ensure fair disclosure of all public information released in relation to HBON, and in particular, to ensure that any such information is timely, honest, correct, straightforward, not misleading, and complete.

6. Board & Committee Meetings

6.1 As at December 2015, the Board of Directors had three standing committees, the Audit Committee, the Risk Committee and the Remuneration Committee and had delegated day to day business matters and conduct to the HBON Management through the Executive management committee.

6.2 The Board has appointed a legally qualified Company Secretary to carry out the duties set out in Article 6 of the Code, and in addition, to advise on best international governance practice, and local governance requirements.

6.3 The Board and the three Board Committees met on the following dates during 2015 and a comprehensive agenda and Board pack (covering the matters set out in Annexure 2 of the Code) are tabled for information and (where applicable) approval.

2015 Dates	Board & Committee
26 January	Board, Audit, Risk
5 March	Board, Audit
30 March	Board
27 April	Board, Audit, Risk
29 July	Board, Audit, Risk
27 October	Audit, Risk
28 October	Board, Remuneration

6.4 The Board met 6 times, the Audit Committee met 5 times, the Risk Committee met 4 times, and the Remuneration Committee met 1 time in 2015. The AGM was held on 30 March 2015. The composition, name of members, Chairperson, and attendance record of the Board and Committees and directorships are given in the table below:

Name	Board & Committee membership	Attendance at Board and Committee meetings				Attendance at the Share-holders Meeting	Director of any other SAOG Company
		Board #	Audit	Risk	Remune-ration	AGM	
David Gordon Eldon	Board Chairman	5	N/A	N/A	N/A	Yes	No
Brig. (Retd.) Waleed Omar Al Zawawi	Board Deputy Chairman, and Audit	6	5	N/A	N/A	Yes	Yes
Dr. Juma Ali Juma Al Juma	Board	4	N/A	N/A	N/A	Yes	Yes
Aimen Ahmed Sultan Al Hosni	Board, Risk, Remuneration	6	N/A	4	1	Yes	Yes
Abdulfattah Sharaf	Board, Risk, Remuneration. Remuneration Committee Chairman effective 29 July 2015.	4	N/A	3	1	No	No
Rob Underwood	Board, Audit, Risk, and Remuneration. Risk Committee Chairman effective from 21 July 2014.	6	5	4	1	Yes	No
Robin D. Jones (Appointed on 30 March 2015)	Board, Audit, and Risk. Audit Committee Chairman effective from 30 March 2015.	4	3	3	N/A	N/A	No

The full Board met for a Bank-wide Strategy session. The meeting was not considered a formal Board meeting as the Statutory Legal Advisor was not in attendance. Sitting fees were paid for attendance and have been recorded in a separate column. 'Strategy session fees in RO' is set out in paragraph 7.4 below.

7. Remuneration

7.1 The Directors are entitled to receive Board and Committee sitting fees in the following amounts, namely:

- RO 500 as a sitting fee payable for every Board meeting attended; and
- RO 500 as a sitting fee for every Committee meeting attended; subject always to (i) an individual director cap of RO 10,000 per annum and (ii) a maximum annual fees/expenses cap in aggregate (for the Board as a whole) of RO 200,000.

7.2 As all members of the Board are non-executive directors, no fixed remuneration or performance linked incentives are applicable. All directors are reimbursed expenses for attending the Board and committee meetings.

7.3 During 2015, Rob Underwood, Abdulfattah Sharaf, and Robin D Jones each waived their entitlement to be paid the whole or any part of their Board/Committee sitting fees.

7.4 The total Board/Committee sitting fees and expenses paid during 2015 amounted to RO 30,498 in accordance with the following table:

Name of the Director	Sitting fees RO	Strategy Session fees RO	Total Sitting fees RO
David Gordon Eldon	2,500	500	3,000
Brig. (Retd.) Waleed Omar Al Zawawi	5,500	500	6,000
Dr. Juma Ali Juma Al Juma	2,000	500	2,500
Aimen Ahmed Sultan Al Hosni	5,500	500	6,000
Abdulfattah Sharaf	-	-	-
Rob Underwood	-	-	-
Robin D. Jones	-	-	-
Total sitting fees	**15,500**	**2,000**	**17,500**
Total hotel, travel and other board expenses	12,998	-	12,998
GRAND TOTAL	**28,498**	**2,000**	**30,498**

7.5 The total remuneration paid/payable in aggregate for 2015 to the senior members of the executive management team including salary, benefits, bonuses, stock options, gratuity and pensions amounted to RO 2 million. The total remuneration paid/payable in aggregate for 2015 to the top 5 officers amounted to RO 1.1 million.

7.6 The executive management has been appointed under formal contracts of employment. Employment contracts are for a period of two years for expatriates and regulated by local labour laws for Omanis. The notice period is 3 months.

7.7 HBON has a transparent and credible policy for senior member remuneration with a significant portion of the total remuneration package being performance related.

8. Audit Committee and other Committees

8.1 The Board has implemented three Board committees as required under the local laws, namely the Audit Committee, the Risk Committee and the Remuneration Committee. The Board also has oversight for the HBON management committees, which include an asset & liability management committee, a risk management committee, and an executive management committee.

8.2 The Audit Committee comprises 3 members, the Risk Committee 4 members, and the Remuneration Committee 3 members.

8.3 Each of these Board and Management committees is governed by formal Terms of Reference which set out their membership, scope, responsibilities and accountability.

8.4 The Board has approved and delegated authority to executives within HBON. The executive management is accountable to the Board through the Chief Executive Officer ('CEO'). Clear delegations of authority and matters reserved to the Board are set out in the Framework.

8.5 The Board ensures that the decisions and policies which it approves under the 'reserved matters' set out in the Framework are implemented by Management. The CEO attends the Board meetings, and is accountable for ensuring that the Board decisions and policies are implemented effectively, and on time.

8.6 The Board keeps the systems of internal control of HBON under continue review.

8.7 The Board keeps the training and development of Management, together with skills required and succession planning, under continual review.

9. Audit Committee

9.1 The Board has set up the Audit Committee in compliance with the terms of Article 7 of the Code. Private sessions are held regularly between the Audit Committee on the one part (separately) with the Chief Financial Officer, Head of Internal Audit, External Auditors, Head of Compliance, and the statutory Legal Advisor.

9.2 The Terms of Reference of the Audit Committee set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

9.3 The primary objective of the Audit Committee is to be accountable to the Board and to provide non-executive responsibility for oversight of, and advice to the Board on, matters relating to financial reporting; together also with all other matters set out in Annexure 3 of the Code.

10. Risk Committee

10.1 The Terms of Reference of the Risk Committee set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

10.2 The primary objective of the Risk Committee is to be accountable to the Board and to provide non-executive responsibility for oversight of, and advice to the Board on, high level risk related matters and risk governance.

11. Remuneration Committee

11.1 The Terms of Reference of the Remuneration Committee set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

11.2 The primary objective of the Remuneration Committee is to be accountable to the Board and to review the over-arching principles, parameters and governance framework of HBON's remuneration policy and the remuneration of (i) Senior Executives (HBON CEO, HBON General Managers and the HBON Company Secretary), (ii) Regulated Employees (Regulated employees are employees who perform a significant influence function, (iii) material risk takers, (iv) employees whose activities have or could have a material impact on the HBON's risk profile, and (v) any other employee as determined by the Committee from time to time in accordance with the requirements of HBON's regulators including implementation of the 9 Principles and 19 Standards of the Financial Stability Board as applicable and evidencing response to the papers on "Range of Methodologies for Risk and Performance Alignment of Remuneration" and "Pillar 3 Disclosure Requirements for

Corporate Governance Report (continued)
For the Annual Report 2015

Remuneration by the Basel Committee on Banking Supervision (BCBS) as may be applicable".

12. Means of Communication with Shareholders and Investors

12.1 HBON had 3,438 shareholders as at 31 December 2015.

12.2 HBON is ready, where practicable, to enter into dialogue with institutional investors, based on a mutual understanding of objectives.

12.3 The main source of information for the shareholders is the Annual Report which includes, amongst other things, the Board of Directors' statement, Management Discussion & Analysis report and the audited financial statements.

12.4 HBON financial information is uploaded onto the Muscat Securities Market ('MSM') in accordance with the local regulatory requirements. It is also uploaded onto the HBON website (www.hsbc.co.om).

12.5 In addition, the Interim Condensed Financial Report is posted on HBON's website (www.hsbc.co.om) and published in the local press. The Annual financial statements are posted on HBON's website at www.hsbc.co.om and MSM and published in the local press. The Annual Report (including the Annual financial statements) are also sent to the shareholders and filed with the CMA and MSM.

12.6 The website displays official news announcements and public presentations made to institutional investors and analysts.

13. Market Price and distribution of holdings

13.1 The following table sets out the HBON market price data during 2015:

Market price data - high and low
(Based on the daily closing prices on the MSM)

Month	RO High	RO Low	Average Index (MSM-Financial)
January 2015	0.147	0.139	7,877.19
February 2015	0.144	0.138	8,308.73
March 2015	0.140	0.130	7,824.98
April 2015	0.135	0.130	7,778.94
May 2015	0.144	0.130	7,737.82
June 2015	0.136	0.131	7,821.21
July 2015	0.138	0.132	7,949.08
August 2015	0.132	0.114	7,489.52
September 2015	0.120	0.111	6,912.50
October 2015	0.121	0.110	7,206.94
November 2015	0.119	0.108	7,096.35
December 2015	0.108	0.100	6,528.62

13.2 The following table sets out the distribution of HBON share ownership during 2015:

% Shareholding	No of shareholders
Less than 5%	3,437
Between 5 – 10%	0
More than 10%	1
Total	3,438

13.3 HBON has no GDRs (Global Depository Receipt), ADRs (American Deposit Receipts), warrants or convertible instruments in issue.

14. Details of non-compliance by HBON

14.1 During the last 3 years total fines of RO 66,180 (RO 30,000 for Year 2013; RO 2,410 for Year 2014; and RO 33,770 for Year 2015) were imposed on the Bank and its Pakistan operations for regulatory penalties as detailed hereunder:

Corporate Governance Report (continued)
For the Annual Report 2015

Year	Entity	Regulator	Brief Description	Amount of penalties (RO)
2013	HBON – Oman	CBO	Cumulative fines	30,000
Total Fines 2013				**30,000**
2014	HBON – Pakistan	State Bank of Pakistan	Cumulative fines	2,410
Total Fines 2014				**2,410**
2015	HBON - Oman	CBO	The Bank had not put in place a separate policy on SME lending and had not appointed AGM or above to head the SME unit.	2,500
		CBO	There was no clean break between loan approval and risk classification authority as the Chief Risk Officer responsible for risk classification also had lending powers. Besides, a few customers of the Bank had not been classified as per CBO guidelines.	2,500
		CBO	The customers were not separated into risk categories on the basis of their risk profile except for a few high risk businesses, customers from high risk countries & Politically Exposed Persons (PEPs).	10,000
		CBO	The Bank has not conducted periodic reviews of security and operational aspects of electronic banking activities to ensure adequacy of security and access controls.	2,500
		CBO	Data Quality Issue. The Bank Credit and Statistical Bureau ('BCSB') was not updated. A total fine of RO 9,600 was imposed on three occasions (RO 600: RO 8,200 : AND RO 800).	9,600
		Telecom Regulatory Authority	HBON had procured walkie-talkie radio units from a TRA approved vendor. However, the TRA inspection team concluded that the radio units had not been authorised by the TRA.	6,670
Total Fines 2015				**33,770**

The Chairman has responded to the CBO and a Board approved action plan is in place to rectify the issues. The Bank's Pakistan operations has been disposed of during the year 2015.

15. Disclosure

15.1 Management is bound by a conflict of interest policy and also a share dealing policy.

15.2 A register of directors' interests is maintained in order to identify any contracts or other interests held by any of the HBON directors.

15.3 Disclosable related party transactions are kept under continual review. Details of any such transactions identified are included in the notice of AGM.

15.4 HBON has implemented and follows a formal works and procurement policy.

15.5 HBON complies with all other international standards relating to the disclosure of related party transactions.

16. Professional profile of the statutory auditor

16.1 PricewaterhouseCoopers ('PwC') were the statutory auditors of HBON in 2015.

16.2 The shareholders of the Bank appointed PwC as the Bank's auditors for the year 2015.

16.3 PwC is a global network of firms operating in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the

Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 3,000 people. (www.pwc.com/me).

PwC has been established in Oman for over 40 years and the Firm comprises 3 partners, including one Omani national, and over 140 professionals and support staff. Expert assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

16.4 PwC in Oman is accredited by the CMA to audit joint stock companies (SAOG's).

17. Audit Fees

17.1 During the year 2015, PwC billed an amount of RO 99,950 towards professional services rendered to the Bank (RO 57,200 for audit and RO 42,750 for other services).

18. Acknowledgment by the Board of directors:

18.1 The Board confirms that to the best of its knowledge and belief:

- The financial statements have been prepared in accordance with the applicable standards and rules;
- The efficiency and adequacy of the internal control systems of HBON have been reviewed and are in compliance with internal rules and regulations;
- There are no material things that affect the continuation of HBON and its ability to continue its operations during the next financial year.

For and on behalf of the Board of Directors

David Gordon Eldon
Chairman

Photo by: Adnan Mohammed Al Asfoor, Cheques Team Leader - Service Delivery

Management Discussion and Analysis

Who we are

HSBC Bank Oman is a proud local bank and part of one of the largest banking and financial services organisations in the world.

Customers:
Over 210,000 active retail customers and more than 5,200 active corporate clients

Served by:
1000 employees

Through three businesses groups:
Retail Banking & Wealth Management
Commercial Banking
Global Banking and Markets

Across six geographical regions in Oman:
Capital East
Capital West
Batinah
Central
West and Musandam
Dhofar

Offices:
74 branches across the Sultanate of Oman

Headquarters:
Al Khuwair, Muscat

Market capitalisation:
Over RO200 million

Listed on the Muscat Securities Market

Shareholders:
3438 (as at 31 December 2015)

Part of the HSBC Group, which in totality serves customers worldwide from over 6000 offices in over 71 countries and territories in Europe, Asia, North and Latin America and the Middle East and Africa.

Our Purpose

Our purpose is to support the growth and diversification of Oman, contribute to the development of the community, support financial institutions and help people fulfil their hopes and realize their ambitions.

Our Vision

Our vision is to become the leading bank in Oman. We will achieve this by focusing on the needs of our customers and the communities in which we operate, thereby delivering long-term sustainable value to all of our stakeholders.

Our structure reflects our purpose and our competitive advantages:

- Through our Commercial Banking business we are well positioned to capture the growing trade and capital flows within and beyond Oman by leveraging our local expertise coupled with our international network. This places us in a strong position to serve our clients as they grow from small enterprises into large multinationals.
- Through our Retail Banking & Wealth Management business we aim to capture the opportunities arising from social mobility and wealth creation.

How we measure performance

We track our progress in implementing our strategy with a range of financial and non-financial measures or key performance indicators. From 2015, we have revised our targets to better reflect the changing regulatory and operating environment.

Rewarding performance

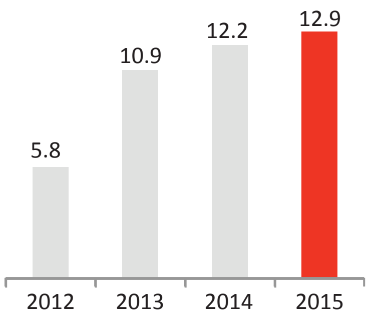
The remuneration of all staff within HSBC Bank Oman is based on the achievement of financial and non-financial objectives. These objectives, which are aligned with the bank's strategy, are detailed in individuals' annual performance scorecards. To be considered for a variable pay award, an individual must have fully complied with our Values.

Management Discussion and Analysis (continued)

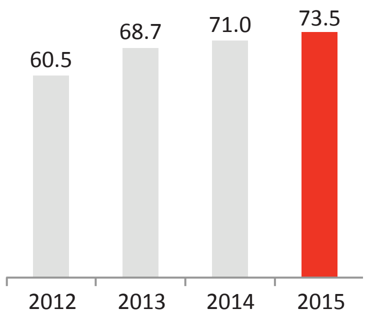
Highlights of 2015

- Net profit was RO12.9m, up 5.7% over last year.
- Cost efficiency ratio improved to 74.4% reflecting a tight control on direct costs.
- Loans and advances to customers – net increased by 3.4% to RO1,200.8m due to an increase in corporate loans and advances.
- The capital adequacy ratio stood at 19.4% representing a continuing strong capital base for future growth.

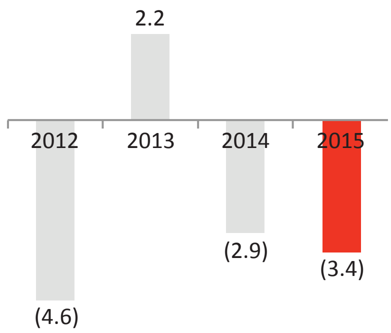
Profit for the year
RO 12.9m



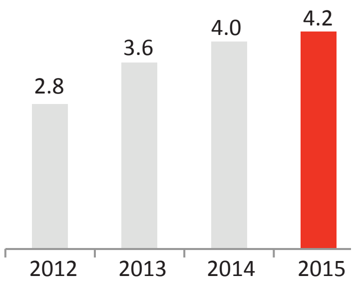
Net operating income
RO 73.5m



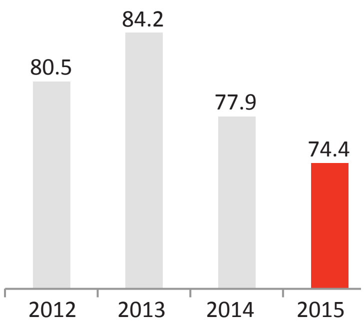
Loan impairment (charges)/release
RO 3.4m



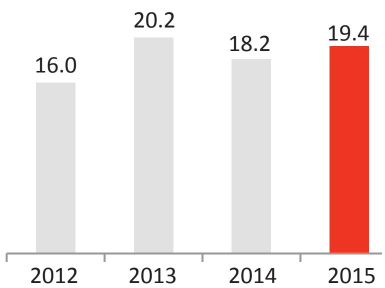
Return on average equity
4.2%



Cost efficiency ratio
74.4%



Capital adequacy ratio
19.4%



Management Discussion and Analysis (continued)

Oman's Economy

Oman's fiscal reliance on hydrocarbon revenues, combined with its modest wealth, means the Sultanate is one of the Gulf economies most exposed to the drop in oil prices. During the first half of the year, the government announced a RO1.8bn (USD4.6bn) budget deficit, primarily due to a 46% decline in government oil receipts. In response, the government has announced plans to curb public expenditure, forming a taskforce to study spending cuts.

There are, however, signs that the loss of oil income is weighing on planned investment spending. During H1 2015 for example, data showed that capital expenditure declined 7% year-on-year, while spending remained steady.

Increasing income from non-oil sources is high on the country's agenda. The Oman Vision 2020 long-term development plan aims to ensure economic and financial stability by boosting private sector participation, diversifying the economy and investing in the Omani workforce. A number of important projects are intended to shift Oman's economy from hydrocarbons: these include industrialisation schemes such as Duqm Port and the Sohar Free Trade Zone featuring the recently signed Liwa Plastic Project contracts.

Oman's Banking Environment

The Omani banking sector once again posted solid growth in 2015 as steadily growing demand for financial services continues to expand the sector. Total assets of commercial banks increased by 13.6% to RO28.2 billion in December 2015, up from RO24.8 billion the previous year. Credit to the private sector increased by 10.2% to RO16.2 billion at the end of December 2015 compared with the same period in 2014.

Of the total credit to the private sector by the end of December, the share of the non-financial corporate sector stood at 46.3%, closely followed by the household sector (mainly under personal loans) at 45.4%. Commercial banks' overall investments in securities increased by 4.6% to RO3 billion at the end of December 2015 from RO2.9 billion a year ago.

HSBC Bank Oman at a glance

HSBC Bank Oman S.A.O.G (HBON) is one of the 8 banks listed on the Muscat Securities Market and is 51% owned by the HSBC Group. It has 74 branches across the Sultanate and employs over 1000 people.

HSBC Bank Oman offers diversified financial solutions to a customer base of more than 210,000 active retail and more than 5,200 active corporate clients. Globally, HSBC is one of the largest banking and financial services organisations in the world, with some 6000 offices in around 71 countries and territories across six geographical regions. It is this international connectivity, coupled with a large domestic presence in the Sultanate, which gives HSBC Bank Oman many competitive advantages in terms of the solutions that can be offered to its client base.

Our products and services are delivered to clients through three businesses in Oman: Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB) and Global Banking & Markets (GB&M).

Strategic Priorities

We have three inter-connected and equally weighted priorities to help us deliver our strategy:

- Grow the business;
- Implement Global Standards; and
- Streamline processes and procedures.

Each priority is complementary and underpinned by initiatives within our day-to-day business. Together, they create value for our customers and shareholders and contribute to the long-term sustainability of HSBC Bank Oman. In the process, we will maintain a robust, resilient and environmentally sustainable business in which our customers can have confidence, our employees can take pride and our communities can place their trust.

Grow the business

We aim to achieve growth by leveraging HSBC Group's international network coupled with our local expertise to improve HSBC Bank Oman's market position in products aligned to our strategy.

Implement Global Standards

HSBC Bank Oman is a safer bank today in terms of our approach to financial crime compliance. We are adopting the highest or most effective financial crime controls and deploying them everywhere we operate.

In line with our ambition to be recognised as the leading bank in Oman, we aspire to set the industry standard for knowing our customers and detecting, deterring and protecting against financial crime. Delivering on this means introducing a more consistent, comprehensive approach to managing financial crime risk – from understanding more about our customers, what they do and where and why they do it, to ensuring their banking activity matches what we would expect it to be.

We aim to apply our financial crime risk standards throughout the lifetime of our customer relationships: from selecting and onboarding customers, to managing our ongoing relationships and monitoring and assessing the changing risk landscape in the Bank. Our Anti-Money Laundering (AML) policy is designed to stop criminals laundering money through our Bank. It sets out the requirements for carrying out customer due diligence, monitoring transactions and escalating concerns about suspicious activity. Our Sanctions policy aims to ensure that we comply with local sanctions-related laws and regulations in countries where we operate. In many cases, our policy extends beyond what we are legally required to do, reflecting the fact that HSBC has no appetite for business with illicit actors.

We expect our Global Standards to underpin our business practices now and in the future, and to provide a source of competitive advantage. Global Standards are expected to allow us to:

- strengthen our response to the ongoing threat of financial crime;
- make consistent, and therefore simplify, the ways by which we monitor and enforce high standards at HSBC Bank Oman;
- strengthen policies and processes that govern how we do business and with whom, and ensure that we consistently apply our HSBC Values.

Streamline processes and procedures

We continue to refine our operational processes, implement consistent business models and streamline our IT operations.

Sustainable savings arise from the reduction or elimination of complexity, inefficiencies or unnecessary activities, and release capital that can be reinvested in growing our business as well as increasing returns to shareholders.

Value Creation

The vision for HSBC Bank Oman remains to become the leading bank in Oman, supported by a clear strategy to achieve this. Our strategy guides where and how we seek to compete. We constantly assess our progress against this strategy and provide regular updates to stakeholders.

Through our principal activities – making payments, holding savings, enabling trade, providing finance and managing risks – we play a central role in society and in the economic system. Our target is to build and maintain a business that is sustainable in the long term.

How we create value

Banks, and the individuals within them, play a crucial role in the economic and social system, creating value for many parties in different ways.

We provide a facility for customers to securely and conveniently deposit their savings. We allow funds to flow from savers and investors to borrowers. The borrowers use these loans or other forms of credit to buy goods or invest in businesses. By these means, we help the economy to convert savings which may be individually short-term into financing which is, in aggregate, longer term. We bring together investors and people looking for investment funding. We develop new financial products. We also facilitate personal and commercial transactions by acting as payment agent both within countries and internationally. Through these activities, we take on risks which we then manage and reflect in our prices.

We offer products that help a wide range of customers to manage their risks and exposures through, for example, wealth management products for retail customers and receivables finance or documentary trade instruments for companies. Corporate customers also ask us to help with managing the financial risks arising in their businesses by employing our expertise and market access.

Governance

The Board of HSBC Bank Oman is committed to establishing and maintaining the highest standards of corporate governance wherever we operate. Good corporate governance is critical for the Bank's long-term success.

We believe that a robust and transparent corporate governance framework is vital to the sustainable success of HSBC Bank Oman. Strengthening our corporate governance framework to support the successful implementation of our Global Standards programme is a continuing focus of the Board.

Financial Performance Analysis

Profit for the year: HBON recorded a 5.7% increase in net profit to RO12.9m for the year ended 31 December 2015 compared to RO12.2m for the year ended 31 December 2014. This increase was mainly due to an increase in net operating income before loan impairment charges and a reduction in operating expenses. The financial results are further analysed as follows:

Net Interest Income (NII): NII for the year ended 31 December 2015 rose by 0.6% to reach RO49.2m, despite the cap on personal loan interest rates and the increased competition for both RBWM and CMB businesses. GB&M continued to show margins improvement due to an upward movement in interest rates on government securities.

Net fees, trading and other operating income: Net fees, trading and other operating income was RO24.4m compared to RO22.1m in 2014. The reasons for the underlying movements were:

- Net fee income stood at RO12.5m compared to RO12.6m for the previous year. There is positive movement in fees income from trade and cards products which was partly offset by lower income from customer lending.
- Net trading income marginally decreased by RO0.2m compared to the previous year.
- Dividend income decreased by RO0.4m due to one off dividend income received in the previous year.
- Other operating income increased by RO3.0m largely due to a gain on the sale of HBON's India operations of RO0.8m and a gain on sale of non-core investments of RO4.6m which were partly offset by the loss on sale of HBON's Pakistan operations of RO1.2m and non-repeat of the gain on sale of properties of RO1.3m which took place in the previous year.

Loan impairment charges net of recoveries: A net charge of RO3.4m has been reported for loan impairment charges compared to RO2.9m for 2014. RBWM witnessed an increase of RO3.0m due to unaccounted losses from deceased cases with no insurance cover and diminishing collections from guarantors. CMB showed a favorable movement by RO2.5m mainly due to lower general provision charges in 2015 by RO1.2m and a reduction in the specific provision (net of recoveries) by RO1.3m.

Operating expenses: Total operating expenses reduced by 1.1% to RO54.7m reflecting a focus on firm cost control. The reduction was primarily due to a decrease in employee compensation and benefits costs of RO0.2m, marketing and advertisement costs of RO0.2m and Other administrative costs of RO0.5m.

Total assets: HBON's total assets decreased from RO2,242.9m to RO2,199.9m. The major reduction in assets comprised of RO145.6m in the amount due from banks and Financial investments of RO33.2m. This was partly offset by an increase in Cash and balances with the Central Bank of RO97.7m and Loans and advances to customers of RO39.5m. HBON's balance sheet composition has strategically changed from financial investments to better yielding customer assets. HBON's advance to deposit (ADR) ratio stood at 66.6% as compared to 62.7% in 2014.

Loans and advances: Customer lending increased by 3.4% from RO1,161.3m in 2014 to RO1,200.8m as at 31 December 2015, primarily due to an increase in corporate loans and advances. The major increases were seen in Import Trade, Construction and Manufacturing sector customers.

Customer deposits: Deposits from customers decreased by 2.7% from RO1,852.3m in 2014 to RO1,802.3m for the year ended 31 December 2015. HBON's strategy is to maintain and further develop diversified relationships across the corporate, institutional banking and retail businesses.

Cost Efficiency Ratio: Although HBON has made good progress in 2015, the cost efficiency ratio stood at 74.4% (2014: 77.9%), which was outside our target range. The Cost Efficiency Ratio was mainly impacted by operating revenue being below target.

Capital Adequacy Ratio: HBON has maintained a high capital adequacy ratio at 19.4%, in line with HBON's policy of preserving capital strength to support future growth. In the near future, under Basel III guidelines, banks will be required to keep an additional capital conversion buffer over and above the minimum capital requirement. Our approach to managing capital is designed to ensure that we exceed current regulatory requirements and we are well placed to meet those which are expected in the future.

HBON's growth aspirations and conservative approach to managing its balance sheet require a strong capital base. Our financial performance in 2015 has kept HBON capitalised to support these aspirations. We seek to position ourselves to deliver sustainable shareholder returns over the coming years. Accordingly, HBON's dividend payout has been set in line with capital and growth targets to support these returns.

Retail Banking and Wealth Management

In 2015, Retail Banking and Wealth Management (RBWM) continued to strengthen how it serves retail banking customers, reflective of its strategy to treat customers openly and fairly. We improved our understanding of the financial needs of customers by having more valuable conversations about their requirements, to ensure that we are able to tailor the Bank's services to better meet these needs.

The focus on 'needs fulfilment' was supported by a strengthening of our products. Our propositions are more competitive than last year in terms of pricing, policies and procedures and we saw a noticeable increase in customer acquisition levels in our key segments of Premier and Advance. We now deliver products and services in shorter turnaround times compared to 2014. For example, housing loan processing times have reduced by 66% year-on-year. By focusing on key products and segments, policy and procedural efficiency improvements have not only delivered growth in acquisition rates but also helped us improve the overall quality of the RBWM portfolio.

Building on the foundations of 2014, we witnessed an improvement in the levels of customer experience during 2015. In Premier, customer recommendation scores increased from 49% in 2014 to 89% in 2015. In addition, 92% of customers provided feedback that their relationship manager adds value compared to 52% in 2014. This improvement is a direct result of the team's sustained effort to engage Premier customers more effectively to help fulfil their financial needs more appropriately. The year also saw the launch of new wealth management products that helped RBWM to increase sales levels in this segment. During the year we also organized well supported customer engagement events, including a seminar on "Cash is not always the King"!

Digital banking continued to play a pivotal role in strengthening our customer service and providing more convenient banking channels for our customers. During the year we held two "Digital Weeks" in branches to help our customers better understand the benefits of using digital channels. As a result we saw registration levels for digital products double year-on-year. We also added new state-of-the-art ATM machines to our network and relocated many to make it more convenient for our customers to access their banking services. The introduction of "3D Secure" has also strengthened our credit and debit card platforms such that our customers can shop online more safely and securely when using their HSBC cards.

We continued to invest in the development and training of RBWM staff. In 2015, Branch Managers, for example, received rigorous training and development focused on our 'needs fulfilment' philosophy and how to deliver a superior customer experience.

RBWM will continue to focus on delivering an exceptional customer experience at all times and through all customer touch-points – our branch network, call centres and digital banking channels.

Commercial Banking

In Commercial Banking we continued to enhance our local capabilities by leveraging HSBC's regional and global connectivity to the benefit of our customers in Oman.

Throughout 2015, a team dedicated to supporting Government and public sector entities materially strengthened client relationships and advised on a number of important national projects. This was achieved through balance sheet funding coupled with strategic capital financing and advisory services from the HSBC Group. This support was complemented by additional diverse financing solutions, such as regional and global syndicated loans, and advising on appropriate debt capital market instruments, including sukuks.

2015 saw the establishment of a team to service the subsidiaries of HSBC Group clients that operate in Oman. This has allowed our relationship managers to leverage HSBC's global network and call on international colleagues to help us provide more innovative solutions to our clients in Oman, both from a client insight and risk management perspective.

Through our electronic banking platform 'HSBCnet', we continued to offer businesses solutions tailored to provide new levels of efficiency, and to allow clients to securely manage payments, receivables and cash flows using real-time transaction information. This expertise was recognised by HSBC Bank Oman being voted the 'Best Domestic Cash Management Bank' in the Sultanate for the 4th consecutive year by the globally acclaimed Euromoney Cash Management Survey 2015. The award comes as recognition of HSBC Bank Oman's effective coordination of Payments and Cash Management services in both corporate and financial institutions categories, with survey responses highlighting the Bank's ability to establish strong client relationships through continued delivery of efficient and high quality solutions.

During 2015 we further demonstrated our support to SMEs (Small and Medium-sized Enterprises) in Oman by doubling the size of our SME-focused International Growth Fund, initially launched in 2014. We committed an additional RO20 million to Oman's international and internationally aspirant SMEs, bringing the total value of the Fund to RO40 million.

The initial Fund had been allocated across a range of sectors, such as those supporting oil and gas, as well as construction, general trading and foodstuffs. The Fund continues to be open to new and existing importing and exporting customers who are based in Oman, and have cross border trading requirements or aspire to grow internationally.

Moreover, we conducted three "Growth Series" seminars during 2015 where many of our SME clients attended to hear from, and interact with, industry experts who addressed the events.

We also hosted the Bank's annual Economist Roadshow where our customers had the opportunity to meet our globally experienced, in-house London-based economists about the outlook for the region, oil prices and so on.

In 2016, we will continue to bring a distinctive advantage to our corporate clients through our unique strengths of our local expertise, combined with HSBC Group's international connectivity, providing access to a wide range of products and services for SMEs through to large Corporates.

Global Banking & Markets

Global Banking & Markets (GB&M) provides tailored financial solutions to major government, corporate and institutional clients worldwide. GB&M operates a long-term relationship management approach to build a full understanding of clients' financial requirements. Sector-focused client service teams comprising relationship managers and product specialists develop financial solutions to meet individual clients' needs. With a presence in over 60 countries / territories and access to HSBC's worldwide presence and capabilities, GB&M serves subsidiaries and offices of our clients on a global basis.

Our clients continue to have access to economic research and best-in-class product expertise delivered out of Dubai and the rest of the HSBC Group. The research helps our clients develop strategies and implement investment decisions in the region. HSBC Bank Oman strives to provide dynamic, up-to-date risk management solutions to support corporate requirements that are continuously changing, as financial risk management becomes increasingly complex. HSBC Bank Oman applies the highest compliance standards, services its clients in line with clear conduct procedures and is committed to local and global standards of business.

Human Resources

We are pleased to have achieved an Omanisation rate of over 93% as at 31 December 2015, noticeably ahead of the 90% target set by the Central Bank of Oman.

As a demonstration of our commitment to developing local Omani talent, in 2015 we welcomed 12 university graduates as part of our Graduate Management Trainee programme. We also sponsored two career and training exhibitions: the country's first Inter-Collegiate Career Fair and EduTrac, showcasing employment and development opportunities to participating colleges and graduates.

Throughout 2015 the Bank focused on providing a range of training and development opportunities to enable staff to progress in their careers. During the year, HBON staff completed over 1900 learning days through Classroom Instructor-led training in addition to various e-learning modules.

We were proud to be one of the first banks in Oman to offer a "Branch Manager Certification Programme", that 21 branch managers have already taken part in. This comprehensive programme is a partnership with the College of Banking and Financial Studies and includes a blend of modules on key areas of leadership development, standards and best practices in retail banking.

In addition, high potential talent at middle and senior manager levels attended a programme entitled ‘Maximising your Potential’. The Bank also conducted a two-day event – the ‘Al Roya Career Development Programme’- designed to fast-track the career progression of high potential Omani nationals.

In support of our strategic priority to implement Global Standards, around 150 staff received tailored training to enhance the way they interact with customers to ensure we are better able to protect the Bank and all its stakeholders from the growing risks of financial crime.

Further, to help employees on the journey to building a high performance culture in HSBC Bank Oman, HR Connect – a new engagement initiative – was launched that enables the HR team to meet face-to-face with staff at all levels of the Bank to discuss topics such as HSBC’s philosophy on Performance Management & Rewards. Future sessions are scheduled to cover topics including Career Development, Employee Relations, and Resourcing & Recruitment.

We continued to work with Outward Bound Oman to support the development of our employees’ leadership capabilities. In 2015 a team of six employees completed Outward Bound Oman’s week-long expedition crossing 140 kilometers from Duqm to Fahud in commemoration of the Sultanate’s 44th National Day.

We remain fully committed to supporting the national people agenda and during 2016 we will continue to implement strategic HR initiatives to attract, retain and develop Omani talent at all levels of the organisation.

Internal Control

Our management of risk is reflected in our strategic priorities. We ensure that risk is maintained at appropriate levels while HBON is positioned for growth and capital is deployed accordingly to maximise revenue opportunities. Our management of financial crime risk is strengthened by the implementation of Global Standards, which are enhancing the procedures, policies, capabilities and controls that govern how we do business and with whom.

Our risk culture is fundamental to the delivery of our strategic objectives. It may be characterized as conservative, control-based and collegiate. It is reinforced by our Values and our Global Standards, and forms the basis on which our risk appetite and risk management framework are established. These are instrumental in aligning our behaviour of individuals with HBON’s attitude to assuming and managing risk.

We have adopted a risk management and internal control structure referred to as the “three lines of defence” to ensure we achieve our commercial aims while meeting regulatory and legal requirements. It is a key part of our operational risk management framework:

- *First line* – every employee is responsible for the risks that are part of their day jobs. The first line of defence ensures that all key risks within their operations are identified, mitigated and monitored by appropriate internal controls within an overall control environment
- *Second line* – functional teams, such as Risk, Finance and Human Resources form the second line of defence. They have similar responsibilities to the first line of defence for the processes and activities they own. In addition, they are responsible for setting policy and providing oversight and challenge of the activities conducted by the first line.
- *Third line* – Internal Audit forms the third line of defence, providing independent assurance to senior management and the HBON Board over the design and operations of HBON’s risk management, governance and internal control processes.

Business Continuity Planning

Business Continuity Management (BCM) is a fundamental part of HSBC Bank Oman’s ability to protect its staff and fulfil its fiduciary responsibilities towards its customers. The Bank maintains Crisis Response and Business Continuity Plans to facilitate the management of incidents which have the potential to harm customers and staff, damage premises or disrupt HBON’s business.

The incident Management Team, which comprises HSBC Bank Oman’s senior management team, is responsible for the oversight of the Bank’s BCM programme.
‘Business Recovery’ is the term given to the analysis, planning, provisioning, testing and reporting required to quickly recover the most critical parts of business after they have been disrupted.

- *Analysis* – each business and functional area conducts analysis to determine the Bank’s most critical activities requiring immediate recovery following a disruption.

- *Planning* – each business and functional area develops a plan to outline the actions to be taken in an event of a disruption.
- *Testing* – all plans are tested to ensure effective implementation in accordance with the recovery objectives.
- *Reporting* – the response and recovery capability of each business and functional area is reported to an oversight committee to ensure that the appropriate levels of resources are being allocated commensurate to the risk to the Bank.

HSBC Bank Oman uses several methods to keep employees aware of the critical role they play in preparing for and responding to potential business disruptions. These methods include:

- Mandatory online BCM training.
- Posting of BCM materials on the Bank's intranet.
- Establishment of emergency phone lines as an alternative method of communicating important messages should an event occur.
- Regular live BCP exercises to ensure that critical staff are familiar with the expectations and set-up at the Work Area Recovery or Displacement site.
- Conduct of individual briefings / induction with Business Continuity Coordinators (BCC).
- Awareness training with BCCs and their teams through Desktop Exercise activities.
- Incident Management (IM) meetings and exercises.

To ensure BCM responses remain up-to-date and fit-for-purpose HSBC Bank Oman conducts:

- Training and awareness programmes to ensure staff fully understand their role during an incident.
- Change management practices taking into account the impact of any changes on BCM responses that have been implemented.
- Comprehensive testing and exercising standards and disciplines.

Our Operations in India and Pakistan

On 31 March 2015, we announced that HSBC Bank Oman had completed the sale of its two branches in India to Doha Bank. In addition, on 6th November 2015 we confirmed that the Bank had completed the sale of its banking business in Pakistan to Meezan Bank Limited.

Corporate Sustainability

Under our corporate sustainability agenda, we have continued to demonstrate our commitment to the Omani community through well-structured programmes and successful partnerships with local institutions.

Throughout the year we continued to partner with the British Council and other local authorities to deliver a number of educational programmes such as:

Young Omani Author Award: A short story writing competition open to Omani students aged between 15 to 18 years old that aimed to inspire students to share short stories around 8 competition themes: Environment, Volunteerism, Culture, Community, Individualism, Sharing, Education and Value of Money.

Kids Read: A unique schools project run in partnership with Ministry of Education, to teach children in Oman the benefits and enjoyment that reading for pleasure can bring.

Springboard Programme: A series of workshops conducted in partnership with the Public Authority of SMEs Development (Riyada) for young Omani female entrepreneurs. The programme aimed to equip delegates with new skills to help them achieve personal and professional growth.

Special Education Needs Programme (SEN): A series of SEN training workshops for teachers across the Sultanate aimed at strengthening their skills in education and mental health, with an emphasis on Dyslexia and Autism Spectrum Disorders.

In collaboration with the Ministry of Health, we also launched an environmentally focused initiative where HBON volunteers planted trees in health centers in Muscat, Sohar and Salalah as part of the Bank's support to "Earth Hour" in 2015.

Looking Ahead

In light of the sharp decrease in global oil prices and the continuing uncertainty around future economic prospects, Oman's 2016 budget understandably focused on improving efficiencies, rationalising public expenditure and increasing income from non-oil sources to reduce the reliance on oil revenues. It also included initiatives aimed at stimulating spending on socio-economic and development projects, as well as promoting Oman as an attractive environment for private sector investment.

Management Discussion and Analysis (continued)

For 2016, total revenues have been estimated at RO 8.6 billion, a fall of 4 per cent year-on-year due to the drop in the estimated oil price. Revenues from oil and gas are expected to be RO 6.15 billion (72 per cent of total revenues), with non-oil revenues at RO 2.45 billion (28 per cent of the total revenues).

The projected 2016 budget deficit of RO 3.3 billion (equivalent to 38 per cent of general revenues and 13 per cent of GDP) is expected to be covered through domestic and international borrowing and existing reserves. Both HBON and the wider HSBC Group are well positioned to work with the government of Oman to facilitate such borrowing.

2016 is clearly set to be another challenging year for Oman, its people and its businesses, as we continue to operate in an environment of low oil prices. HSBC celebrated its 150th anniversary in 2015 and throughout its history has been through many economic highs and lows globally. HSBC Bank Oman, as part of the HSBC Group, will continue to leverage this knowledge and experience to help support its customers in Oman proactively navigate the challenges ahead. By working closely with our customers to understanding and support their needs, and by continuing to focus on delivering a superior customer service at all times, we will maintain our journey to achieve our vision to become the leading bank in Oman.

Andrew P Long
Chief Executive Officer

Handicraft by: Majda Issa Al Raisi, Teller - Muaskar Al Murtasaa Branch

Report of factual findings to the Board of Directors of HSBC Bank Oman SAOG in respect of Basel II - Pillar III and Basel III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of HSBC Bank Oman SAOG (the bank) set out on pages 35 to 53 as at and for the year ended 31 December 2015. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman. This report relates only to the bank's disclosures and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the bank.

PricewaterhouseCoopers

3 March 2016
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLC, Hatat House A, Suites 204-211, Wadi Adai, P. O. Box 3075, Ruwi, PC 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Statutory Disclosure under Basel II - Pillar III and Basel III Framework

For the year ended 31 December 2015

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.

On 31 March 2015, HBON completed the disposal of its banking operations in India to Doha Bank QSC ('Doha Bank').

On 6 November 2015, HBON completed the disposal of its banking operations in Pakistan to Meezan Bank Limited ('MBL').

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

In October 2015, 1,020,159,523 shares in HBON were transferred to HMEH from HSBC Bank Middle East Limited ('HBME').

Disclosure Policy

The Bank has developed a formal policy on the disclosure requirements forming part of Basel II and Basel III Norms which is approved by the Board of Directors in line with the requirements of the Central Bank of Oman regulations.

Scope of Application

The information provided in this statement is for the Bank's operations in Oman. The Bank has no subsidiaries.

Capital Structure

Objectives & Strategy:

Central Bank of Oman sets and monitors regulatory requirements. The Bank's objectives when managing capital are to:

- Safeguard the Bank's ability to continue as a growing entity and increase the returns for its ultimate shareholders;
- Comply with regulatory capital requirements set by the Central Bank of Oman;
- Maintain Capital Adequacy Ratios above the minimum specified by the Central Bank of Oman and Basel II Accord guidelines and Basel III framework;
- Manage the investments in short term money market placements in Central Bank of Oman instruments or above investment grade financial institutions.

Qualitative Disclosures:

- The Bank uses Standardised Approach for estimating the Capital Charge for credit risk.
- The Bank uses Basic Indicator Approach for estimating the Capital Charge for Operational Risk.
- In implementing current capital requirements the Bank calculates Risk Assets Ratio in accordance with the Capital Adequacy guidelines established by the Central Bank of Oman prescribing the ratio of total capital to total Risk Weighted Assets (RWA).

Capital Structure:

Common Equity Tier 1 (CET1) Capital is comprised of common shares issued by the bank, legal reserves and retained earnings. The book values of goodwill, intangible assets, cumulative unrealised losses on available for sale investments/loans are deducted in arriving at CET1 capital. Currently, the Bank does not have any goodwill on its book.

Additional Tier 1 Capital (AT1)

<u>Additional Tier 1 Capital consisting of the following:</u>

- Perpetual capital instruments issued by the bank which should be subordinated to depositors, general creditors and subordinated debt/sukuk of the bank and meets the further criteria as specified under the Basel III framework.
- Share premium resulting from the issue of Additional Tier I instruments
- Qualifying Additional Tier 1 capital instruments issued by consolidated subsidiaries of the bank held by third parties, on minority interest and which are not included in Common Equity Tier 1;
- Less regulatory adjustments applied in the calculation of Additional Tier 1 Capital.

Tier II capital comprises of general loan loss provisions and cumulative fair value gains on available for sale equity instruments. The fair value gains are recognized after a haircut of 55% on the difference between the historical cost book value and market value and are applied in order to cushion against market volatility and tax charges.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

In line with Central Bank of Oman guidelines, non-strategic investments made in banks/financial entities up to either 5% of the capital of the investee bank/financial entity or 5% of the net worth of the investing bank, whichever is lower, has been risk weighted at 100%.

The Composition of the Capital structure is as follows:

	RO in 000's
Paid up share capital	200,031
Legal reserve	36,277
Retained earnings	63,367
Regulatory adjustments to CET1	(9,745)
CET1 capital	**289,930**
Additional Tier 1 capital	-
Total Tier 1 capital	**289,930**
Fair value reserve for available-for-sale equity securities	247
Collective allowances for impairment	16,435
Tier 2 capital	**16,682**
Total regulatory capital	**306,612**

The additional disclosures as per Basel III framework are as follows.

Basel III common disclosures during the transition phase

Basel III common disclosures during transition phase of regulatory adjustment (i.e. from December 31, 2013 to December 31, 2017) is designed to meet the Basel III requirement for banks to disclose the components of capital which will benefit from the transitional arrangements. (refer Annexure I)

Regulatory adjustments of all deductions and prudential filters would be phased in and deducted from CET1/AT1/T2 so as to be completely implemented by December 31, 2017. The gradual phase in is given in the following table:-

Year ending	Deduction using the corresponding deduction approach
2013	20%
2014	40%
2015	60%
2016	80%
2017	100%

Any shortfall in mandated deductions shall be deducted from the next higher tier of capital if the relevant tier of capital is insufficient for the deduction. The remainder amount not deducted from CET1/AT1/T2 during the transitional arrangement will be subject to the regulatory adjustments as provided in BM 1009.

Disclosure for 3 step approach reconciliation

Under Basel III frameworks, banks should disclose a full reconciliation of all regulatory capital elements back to the statement of financial position in the audited financial statements. The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. The 3 step approach indicated below ensures that the reconciliation between these numbers is undertaken in a consistent manner. (refer Annexure II)

- Step 1: The reported balance sheet under the regulatory scope of consolidation.
- Step 2: Expand the lines of the balance sheet under the regulatory scope of consolidation to display all of the components that are used in the composition of capital disclosure (refer Annexure I)
- Step 3: Map each of the components that are disclosed in Step 2 to the composition of capital disclosure set out in Annexure I.

Disclosure for main feature of regulatory capital instruments

The disclosure of main feature of regulatory capital instruments provides a main features report that summarises all of the regulatory capital instruments of the bank. This is a minimum level of summary disclosure that required to report in respect of each regulatory capital instrument issued by the bank, including common shares.

A description of the main feature of regulatory capital instruments issued by the Bank is set out in Annexure III.

Capital Adequacy:

The Bank's policy is to maintain a strong capital base so as to maintain investor, depositor and market confidence and to sustain future business developments.

The Bank is fully committed in implementing the Basel III Norms as adopted by the Central Bank of Oman and

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

currently follows the Standardised approach for credit and market risk and the Basic Indicator Approach for operational risk.

The Bank has currently set the internal minimum target Capital Adequacy Ratio (CAR) at 17% for 2016 and 2017.

The capital to support current and future activities is discussed in the Bank's Asset Liability Committee ("ALCO") and documented.

In line with Central Bank of Oman, Capital Adequacy regulations and HSBC Group practices we monitor the Capital Adequacy on a daily basis. Further, a full Basel II Return in line with Central Bank of Oman format is submitted each quarter as per standard requirements.

Credit Risk

The Bank has implemented the Standardised Approach across its Banking Book.

Operational Risk

The Bank uses the Basic Indicator Approach for the allocation of operational risk capital. The Bank allocates capital for operational risk based on the average annual gross income for the past three years.

Market Risk

The Bank is using VAR (Value at Risk methodology) discussed in detail later in this document in calculating Market Risk on exposures on the Balance Sheet.

The details of capital, risk weighted assets and capital adequacy ratio as at 31 December 2015 are as follows:

RO '000

Details	Gross balance (Book value)	Net balances (Book value)*	Risk weighted assets
On-balance sheet items	2,171,601	2,145,946	1,134,640
Off-balance sheet items	356,794	354,216	283,447
Derivatives	3,054	3,054	3,054
Total	**2,531,449**	**2,503,216**	**1,421,141**
Market risk			7,730
Operational risk			149,947
Total			**1,578,818**
CET 1 capital			289,930
Additional Tier 1 capital			-
Total Tier 1 capital			**289,930**
Tier 2 capital			**16,682**
Total regulatory capital			**306,612**
Capital requirement for credit risk			179,419
Capital requirement for market risk			976
Capital requirement for operational risk			18,931
Total required capital			**199,326**
CET1 / Tier 1 Capital ratio			**18.36%**
Tier 1 Capital ratio			**18.36%**
Total capital ratio			**19.42%**

*Net of eligible collaterals.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

Risk Exposure and Assessment

All of the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are credit risk (including cross-border country risk), market risk, operational risks in various forms, liquidity risk, reputational risk, legal risk and sustainability (environmental and social) risks. Market risk includes foreign exchange, interest rate and equity price risks. The management of these various risk categories is discussed below.

The risk profiles of the Bank change constantly under the influence of a wide range of factors. The risk management framework established by the Bank fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interdependencies.

The Bank's Risk Management framework is set out in note 30 of the financial statements.

Credit Risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and from off-balance sheet products such as guarantees and from the holding of debt and other securities. Credit risk generates the largest regulatory capital requirement of the risks we incur.

The Bank has standards, policies and procedures dedicated to controlling and monitoring risk from all such activities. These are similar to those applied to all HSBC Group offices in various regions.

The Bank has standalone credit policies that are aligned to HSBC group. This includes application of credit risk rating system for corporate counterparties for which the Bank uses a 22 point credit risk rating system called Credit Risk Rating ('CRR'). Each CRR is mapped to a Probability of Default (PD), which is also reviewed and updated periodically. Since such accounts are individually significant, risk ratings are reviewed regularly and amendments made as and when appropriate. Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

A comparison of the Bank's Credit Risk Ratings compared to those with Central Bank of Oman's classification categories is as follows:

HBON CRR	Central Bank of Oman Classification
1.1 – 6.2	Standard
7.1 – 8.3	Special Mention
9.0	Substandard / Doubtful / Loss
10.0	Loss

The management of credit risk, credit approval process, credit quality of loans and advances, impaired loans, credit administration is set out in note 30.3 of the financial statements.

The Bank's credit risk limits to counterparties in the financial and government sectors are in line with the delegation of authorities by the Bank's Board. The main purpose is to optimize the use of credit availability and avoid excessive risk concentration. Cross-border risk is subject to limits which are delegated by the Bank's Board and is aligned to the HSBC Group credit process.

The Bank has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis which includes the management of adverse trends. The Bank is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products, or to individual geographic areas.

Special attention is paid to the management of problem loans. A specialist unit exists to provide intensive management and control to maximize recoveries of doubtful debts.

Risk reporting

In addition to the quantitative disclosures and other reporting/returns submitted to our regulators in Oman, the Bank provides various reports to HSBC Regional Office in Dubai and HSBC Group Head Office in London. These reports include Large Exposures to banks, sovereigns, corporates and exposures to the property sector. In addition, exposure to the key sectors is monitored through the monthly HBON Risk Management Meeting.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

Policies for hedging and/or mitigating risk

The Bank follows the policies and processes for mitigating risks as per the instructions given under the HSBC Group Business Functional Instruction Manual (FIM).

Past Dues

The basic definition of past due is when a loan instalment is not paid by the due date.

Impairment

A financial asset is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of an event after initial recognition of the asset, and this event has an effect on future cash flows that can be estimated reliably. Impairment allowances are calculated by way of assessment either:

- at individual account level (using discounted cash flow techniques as appropriate); or
- on a collective basis for assets with similar credit risk characteristics.

Description of approaches followed for specific and general provisions and statistical methods used

It is the Bank's policy to make an allowance for impaired loans promptly when required and on a consistent basis with established Group guidelines and Regulatory requirements.

The rating process for credit facilities is designed to highlight exposures requiring greater management attention based on a higher probability of default and potential loss. Management is required to particularly focus on facilities to those borrowers and portfolio segments classified as below satisfactory. Amendments to risk grades, where necessary, are undertaken promptly. Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Two types of impairment allowances are in place: individually assessed and collectively assessed. The Bank's policy requires a review of the level of impairment allowances on individual facilities that are above materiality thresholds at least half-yearly, and more regularly, where individual circumstances require. The policy requires that this will normally include a review of collateral held (including re-confirmation of its enforceability) and an assessment of actual and anticipated receipts.

Portfolio allowances for Retail customers are generally reassessed monthly and charges for new allowances, or releases of existing allowances, are calculated for each separately identified portfolio.

Non-performing loans

For individually assessed accounts, loans are required to be designated as non-performing as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payments of principal or interest are 90 days overdue. Portfolios of homogenous loans are designated as non-performing if facilities are 90 days or more overdue. The Bank has adopted the HSBC Group Flow Rate Model by which an impairment allowance for retail portfolio is booked for all past due loans commencing day 1 of delinquency. However, in the financial statements provisions are recorded in line with CBO requirements.

The details for total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure are listed as under:

RO'000

Type of Credit Exposure	Average gross exposure		Total gross exposure	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
Overdraft	**78,069**	87,338	**66,130**	79,453
Personal loans*	**467,626**	438,155	**462,900**	449,747
Loans against trust receipts	**134,924**	131,329	**108,554**	133,920
Other loans	**635,340**	494,410	**633,086**	554,517
Bills purchased / discounted	**30,305**	33,160	**13,394**	43,522
Total	**1,346,264**	1,184,392	**1,284,064**	1,261,159

*Personal loans are excluding the personal overdrafts of RO 3,852K (31 Dec 2014: RO 7,061K) which has been included under Overdrafts.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2015

Geographical distribution

Geographic distribution of exposures, broken down in significant areas by major types of credit exposure

RO'000

Type of Credit Exposure	Oman	Other GCC countries	OECD Countries	India	Pakistan	Other	Total
Overdraft	66,130	-	-	-	-	-	**66,130**
Personal loans*	461,111	660	962	-	-	167	**462,900**
Loans against trust receipts	108,554	-	-	-	-	-	**108,554**
Other loans	604,211	-	28,875	-	-	-	**633,086**
Bills purchased / discounted	11,157	1,273	-	964	-	-	**13,394**
Total	**1,251,163**	**1,933**	**29,837**	**964**	**-**	**167**	**1,284,064**

*Personal loans are excluding the personal overdrafts of RO 3,852Kwhich has been included under Overdrafts.

Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

RO'000

Economic Sector	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Import trade	30,327	132,345	2,608	165,280	52,851
Export trade	-	-	-	-	-
Wholesale & retail trade	8,567	35,881	769	45,217	12,831
Mining & quarrying	1,078	11,450	-	12,528	759
Construction	7,340	76,284	3,310	86,934	72,005
Manufacturing	2,007	212,494	4,434	218,935	10,635
Electricity, gas and water	22	80,106	-	80,128	7,859
Transport and communication	434	10,292	-	10,726	33,905
Financial institutions	-	-	-	-	155,178
Services*	4,859	112,706	1,876	119,441	79,656
Personal loans**	3,852	461,111	-	464,963	86
Agriculture and allied activities	1,185	1,045	-	2,230	18
Government	-	-	-	-	3,140
Non-resident lending*	-	30,664	-	30,664	7,805
All others	6,459	40,162	397	47,018	415
Total	**66,130**	**1,204,540**	**13,394**	**1,284,064**	**437,143**

*Services sector does not include loans of RO28,875K, which has been included under the head non-resident lending.
**The personal loans does not includes non-resident housing loans of RO1,789K, which has been included under the head non-resident lending.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

Residual contractual maturity of the loan portfolio, broken down by major types of credit exposure:

RO'000

Time Band	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Upto1 month	19,388	262,987	4,179	286,554	145,146
1-3 months	-	104,487	6,702	111,189	85,838
3-6 months	-	34,860	2,360	37,220	38,926
6-9 months	-	4,048	-	4,048	31,780
9-12 months	-	3,601	-	3,601	35,624
1-3 years	-	95,923	-	95,923	65,746
3-5 years	-	580,531	-	580,531	11,238
Over 5 years	46,742	118,103	153	164,998	22,845
Total	**66,130**	**1,204,540**	**13,394**	**1,284,064**	**437,143**

Risk exposure by major industry

RO'000

Economic Sector	Gross Loans	Of which, NPLs	General provisions held	Specific provisions held	Reserve interest	Provisions made during the year***	Advances written off during the year
Import trade	165,280	31,324	1,333	10,327	17,402	671	2,340
Export trade	-	-	-	-	-	-	-
Wholesale & retail trade	45,217	6,181	386	385	5,661	29	893
Mining & quarrying	12,528	1	124	1	-	1	-
Construction	86,934	18,186	685	8,775	8,372	394	4,988
Manufacturing	218,935	1,960	2,154	757	715	344	2,669
Electricity, gas and water	80,128	859	793	508	350	-	2,982
Transport and communication	10,726	3,411	73	1,577	1,762	16	298
Financial institutions	-	-	-	-	-	-	-
Services*	119,441	4,066	1,154	1,426	2,090	76	1,733
Personal loans**	464,963	2,777	8,957	3,588	740	5,914	5,383
Agriculture and allied activities	2,230	2,011	1	427	1,005	1	39
Government	-	-	-	-	-	-	2
Non-resident lending*	30,664	815	308	408	255	-	1,506
All others	47,018	290	467	201	89	37	7,816
Total	**1,284,064**	**71,881**	**16,435**	**28,380**	**38,441**	**7,483**	**30,649**

*Services sector does not include loans of RO28,875K, which has been included under the head non-resident lending.
**The personal loans does not includes non resident housing loans of RO1,789K, which has been included under the head non-resident lending.
*** Provisions made during the year contains specific provision made during the year.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

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Amount of impaired loans broken down by significant geographic areas including specific and general allowances related to each geographical area.

RO'000

Country	Gross loans	Of which, NPLs	General provision held	Specific provision held	Reserve interest	Provisions made during the year*	Advances written off during the year
Oman	1,251,163	71,066	16,088	27,972	38,186	7,483	29,143
Other GCC countries	1,933	389	26	195	95	-	11
OECD countries	29,837	426	308	213	160	-	-
India	964	-	10	-	-	-	1,495
Others	167	-	3	-	-	-	-
Total	**1,284,064**	**71,881**	**16,435**	**28,380**	**38,441**	**7,483**	**30,649**

*Provisions made during the year contain specific provision made during the year.

Movements of Gross Loans:

RO'000

Details	Performing loans		Non-performing loans			Total
	Standard	S.M.	Sub-standard	Doubtful	Loss	
Opening balance	**1,118,975**	**49,611**	**4,221**	**2,933**	**85,419**	**1,261,159**
Migration / changes (+/-)	3,625	(17,860)	3,873	(1,820)	12,143	**(39)**
Movement due to sale of India and Pakistan Operations	(45)	-	-	-	(849)	**(894)**
New loans	1,456,325	27,648	-	-	-	**1,483,973**
Recovery of loans	(1,411,235)	(14,861)	(341)	(187)	(2,862)	**(1,429,486)**
Loans written off	-	-	(5,383)	(72)	(25,194)	**(30,649)**
Closing balance	**1,167,645**	**44,538**	**2,370**	**854**	**68,657**	**1,284,064**
Provisions held	**17,587**	**615**	**1,566**	**615**	**24,432**	**44,815**
Reserve Interest	**614**	**7**	**31**	**55**	**37,734**	**38,441**

Credit Risk disclosures relating to the Standardised Approach

The Bank uses the ratings from Eligible Credit Assessment Institutions ('ECAI') recognised by CBO like Fitch and Standard & Poor's for the assessment of credit risk under the Basel II Standardised Approach. Each of the rating agencies is used for the purpose of assessing Sovereign, Bank and Corporate credit assessments. The process of transferring the public issue rating in to comparable assets in the banking book is not widely applied in Oman as most corporate clients are unrated. However the exposure to banks through money market placements, balances with other banks and counter guarantees are governed, by the ratings applied by the rating agencies.

The total Banking Book risk weighted assets amounted to RO1,421m as at 31 December 2015 after the application of credit risk mitigants.

The analysis of exposure with banks and sovereign by ECAI ratings is set out in note 30.3 of the financial statements.

Credit Risk Mitigation: Disclosures for Standardised Approach

The Bank endeavours to obtain collateral for all corporate credits unless the business case warrants clean lending. Collaterals stipulated are usually mortgages, charges over business, stock and debtors, financial instruments and cash. Security is however recognized only as a fall back option and repayment of facilities is primarily predicated on cash flow from the borrower's business. However, collateral may be an important mitigant of risk.

In the Retail loan segment, facilities granted are predominately salary linked loans for personal purposes. Prudent norms as well as regulatory guidelines are applied to ensure that the borrower is not overstretched to repay his dues. For housing loans and auto loans, besides the salary assignments, the underlying asset is mortgaged.

Where reliance is placed on real estate as collateral, professional valuations by a Bank approved valuer are required. Revaluations are obtained every two years. If equities are taken as collateral, only shares quoted on the MSM can be accepted and the value of shares will be based on the average value over the 15 days preceding the drawn down. For both mortgage and financial instruments values should have margin cover applied as defined in the Banks Lending Guidelines.

The Bank uses the Basel II Simple Approach for Credit Risk Mitigation - Collateral. HBON's policies, procedures and processes including collateral valuation and management are governed by HSBC Group guidelines.

The total value of eligible financial collateral, for example deposits under lien and other bank guarantees, for the credit risk portfolio is RO28.2m. The Bank does make use of netting whether on or off balance sheet.

Information about (market or credit) risk concentrations within the mitigation taken

Credit risk concentrations are monitored through monthly ALCO and Risk Management Meetings.

Market risks in the trading book

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The management of market risk is set out in note 30.5 of the financial statements.

One of the principal tools used by the Bank to monitor and limit market risk exposure is VAR. VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Bank, 99 per cent). The Bank calculates VAR daily. The VAR model used by the Bank is based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates times series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential movements in market prices are calculated with reference to market data from the last two years.

Although a useful guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognizes these limitations by augmenting its VAR limits with other position and sensitivity limit structures.

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VAR and present value of a basis point, together with stress and sensitivity testing and concentration limits.

Other controls include restricting individual operations to trading within a list of pre-approved permissible instruments, and enforcing rigorous new product approval procedures

The principal objective of market risk management of

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

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The VAR for Global markets was as follows:

	2015 RO'000	Average RO'000	Maximum RO'000	Minimum RO'000	2014 RO'000	Average RO'000	Maximum RO'000	Minimum RO'000
Total VAR	**67**	**252**	**587**	**67**	614	458	666	203
Trading VAR	**4**	**2**	**12**	**-**	-	2	6	-

non-trading portfolios is to optimize net interest income. Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated by having to make behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts. In order to manage this risk optimally, market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the auspices of ALCO. ALCO regularly reviews that these portfolios are managed within pre-approved interest rate risk limits.

Interest Rate Risk:

Interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments can generate interest rate risk, the impact of which is a function of the interest rate changes and the maturity profile of the assets and liabilities. Positions are monitored regularly and hedging strategies are used to manage the interest rate risk. The management of mismatches and gap position is set out in note 23 of financial statements. The impact of an incremental / decreased 100 basis points parallel shift on net interest income for the next 12 months is given as follows:

		2015 RO'000	2014 RO'000
1% UP -	Increase in NII by	**1,633**	**474**
1% DOWN -	Decrease in NII by	**(1,771)**	**(113)**

Ramp up scenario

25bp increase per quarter	**358**	**296**
25bp decrease per quarter	**(387)**	**(296)**

The capital requirements for market risk are as follows:

	RO'000
Interest rate risk	-
Equity position risk	-
Commodities position risk	-
Foreign exchange risk	618
Total	**618**

Liquidity Risk:

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

The objective of the Bank's liquidity and funding management is to allow it to withstand severe liquidity stresses. It is designed to be adaptable to changing business models and regulations.

The Bank employs a number of measures to monitor liquidity risk. The management of liquidity risk is set out in note 30.4 of the financial statements.

ALCO monitors adherence to liquidity and funding limits and ensures that all commitments, both contractual and those determined on the basis of behavioural patterns, which are required to be funded, can be met out of readily available and secure sources of funding. It is impossible to provide explicit rules for every eventuality.

To ensure that all commitments, both contractual and those determined on the basis of behavioural patterns, which are required to be funded, can be met out of readily available and secure sources of funding.

The objective of funding management is to ensure that necessary funds will be available at all times to finance assets. ALCO usually delegates this responsibility to the Treasurer.

Liquidity and funding management depends on the following factors:

- a bank's expected cash flow;
- its capacity to borrow in the market; and
- its stock of readily available, high quality, liquid assets.

The Bank's approach to liquidity and funding management takes these factors into account.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

The main elements of the Bank's liquidity and funding management are:

- compliance with Central Bank of Oman regulations
- reporting of projected future cash flows stressed under varying scenarios and consideration of the level of liquid assets and maturing funding relative to the cash flow position
- maintenance of a stock of high quality liquid assets sufficient to repay defined liabilities at the reporting date
- maintenance of liquidity and funding contingency plans.

Liquidity Management- importance factors considered by the Bank

- projected net cumulative cash flows by time period stressed under various scenarios termed as Operational Cash Flow Projections (OCPs.) Under this scenario HBON has to remain positive for a cumulative Cash Flow position up to three months of time band maturity. Accordingly the Bank remained positive OCPs up to the three months cumulative bucket as at 31 December 2015.
- monitoring of structural liquidity measures including balance sheet maturity analysis
- monitoring of depositor concentration by stratification of deposits into retail, commercial and global banking and markets both at the higher level of commercial/professional funding (Non Core) and at the lower level of reliance on large individual depositors.
- Where the emphasis is on funding management monitoring the maturity profile of wholesale debt issues with the aim of avoiding "bunching" (i.e. large maturities of debt in the same time period) and maintaining diverse sources of funding and adequate back up lines.

Daily and weekly Liquidity Statements

The Bank measures its liquidity position daily/weekly as per the internal guidelines set by the Bank.

Operational Risk:

The Bank defines operational risk as "the risk to achieving your strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events". Losses arising through fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

A formal governance structure provides oversight over the management of operational risk. The Risk Management Meeting convenes monthly to discuss operational risk issues and the effectiveness of internal controls. The capital requirement of RO18.9m is based on the average gross income for the three year period ending 31 December 2015.

The management of operational risk is set out in note 30.7 of the financial statements.

Basic Indicator Approach calculation

RO in 000's

Year	Business line	Total gross income	Total gross (after negative GI adjustment)	Alpha	Capital charge
2013	Total business	79,916	79,916	15.00%	**11,987**
2014	Total business	81,625	81,625	15.00%	**12,244**
2015	Total business	78,374	78,374	15.00%	**11,756**
Number of years with positive total gross income					**3**
Basic Indicator approach capital charge @ 12.50					**11,996**
Total Risk Weighted Assets - Operational Risk					**149,947**

I approved and authorize issue of these Basel II - Pillar 3 and Basel III disclosures.

Andrew Long
Chief Executive Officer

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

Annexure I

	Basel III common disclosure during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (RO'000)		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	200,031	
2	Retained earnings	63,367	
3	Accumulated other comprehensive income (and other reserves)	36,277	
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)*	-	
	Public sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**299,675**	**-**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(267)	(177)
8	Goodwill (net of related tax liability)	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(4,685)	(3,124)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(895)	(597)
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of	-	-
20	Mortgage Servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	(3,898)	(3,898)
28	**Total regulatory adjustments to Common equity Tier 1**	**(9,745)**	
29	**Common Equity Tier 1 capital (CET1)**	**289,930**	
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards [5]	-	
32	of which: classified as liabilities under applicable accounting standards [6]	-	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	-	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	OF WHICH*:* Prudential valuation adjustments	-	-
	OF WHICH : Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
	OF WHICH*:* Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**289,930**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions *(General loan loss provision and Cumulative fair value gain on AFS investments)*	16,682	
51	**Tier 2 capital before regulatory adjustments**	**16,682**	
	Tier 2 capital: regulatory adjustments	-	
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
57	**Total regulatory adjustments to Tier 2 capital**		
58	**Tier 2 capital (T2)**	**16,682**	
59	**Total capital (TC = T1 + T2)**	**306,612**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		
	OF WHICH: [INSERT NAME OFADJUSTMENT]		
	OF WHICH…..		
60	**Total risk weighted assets (60a+60b+60c)**	**1,578,818**	
60a	*Of which: Credit risk weighted assets*	1,421,141	
60b	*Of which: Market risk weighted assets*	7,730	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

60c	*Of which: Operational risk weighted assets*	149,947	
Capital Ratios			
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**18.36%**	
62	**Tier 1 (as a percentage of risk weighted assets)**	**18.36%**	
63	**Total capital (as a percentage of risk weighted assets)**	**19.42%**	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	-	
65	*of which: capital conservation buffer requirement*	-	
66	*of which: bank specific countercyclical buffer requirement*	-	
67	*of which: D-SIB/G-SIB buffer requirement*	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	-	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	-	
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	-	
71	National total capital minimum ratio (if different from Basel 3 minimum)	-	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1* instruments *subject to phase out arrangements*	-	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on T2 instruments subject to phase out arrangements*	-	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	

Annexure II

Step 1

The scope of regulatory consolidation and accounting consolidation is identical accordingly the step 1 of the reconciliation is not required.

Step 2

	Balance sheet as in published financial statements As at 31.12.2015	Under regulatory scope of consolidation As at 31.12.2015	Reference
Assets			
Cash and balances with CBO	277,736	277,736	
Balance with banks and money at call and short notice	10,271	10,271	
Investments :			
Of which Held to Maturity	-	-	
Out of investments in Held to Maturity:	-	-	
Investments in subsidiaries	-	-	
Investments in Associates and Joint Ventures	-	-	
Available for Sale Of which:	632,920	632,920	
Investments in Subsidiaries	-	-	
Investments in Associates and Joint Ventures	-	-	
Held for Trading	-	-	
Loans and advances of which :	1,284,064	1,284,064	
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks	-	-	
Loans and advances to domestic customers	-	1,236,088	
Loans and advances to non-resident customers for domestic operations	-	-	
Loans and advances to non-resident customers for operations abroad	-	30,664	
Loans and advances to SMEs	-	17,312	
Financing from Islamic banking window	-	-	
Provision against Loans and advances of which:	**(83,256)**	**(83,256)**	
Provision for Loan impairment - Specific	(28,380)	(28,380)	
Provision for Loan impairment – general	(16,435)	(16,435)	
Reserve Interest	(38,441)	(38,441)	
Fixed assets	26,917	26,917	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

	Balance sheet as in published financial statements As at 31.12.2015	Under regulatory scope of consolidation As at 31.12.2015	Reference
Other assets of which:	51,290	51,290	
Goodwill and intangible assets Out of which:			
goodwill	-	-	a
Other intangibles (excluding MSRs)	7,809	7,809	b
Deferred tax assets	1,492	1,492	
Goodwill on consolidation			
Debit balance in Profit & Loss account			
Total Assets	**2,199,942**	**2,199,942**	
Capital & Liabilities			
Paid-up Capital Of which:			
Amount eligible for CET1	200,031	200,031	h
Amount eligible for AT1	-	-	i
Reserves & Surplus	108,485	108,485	
Total Capital	**308,516**	**308,516**	
Deposits Of which:			
Deposits from banks	36,211	34,286	
Customer deposits	1,802,338	1,802,338	
Deposits of Islamic Banking window	-	-	
Other deposits(please specify)	-	-	
Borrowings Of which:		1,925	
From CBO	-	-	
From banks	-	1,925	
From other institutions & agencies	-	-	
Borrowings in the form of bonds, Debentures and sukuks	-	-	
Others (Please specify)	-	-	
Other liabilities & provisions Of which:	52,877	52,877	
DTLs related to goodwill	-	-	c
DTLs related to intangible assets	-	-	d
TOTAL	**2,199,942**	**2,199,942**	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

Step 3

Common Equity Tier 1 capital: instruments and reserves			
		Component of regulatory capital reported by bank	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2**
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	200,031	**h**
2	Retained earnings	63,367	
3	Accumulated other comprehensive income (and other reserves)	36,277	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**299,675**	
7	Prudential valuation adjustments	(267)	
8	Goodwill (net of related tax liability)	-	**(a-c)**
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(4,685)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(895)	
11	Regulatory adjustments applied to Common Equity Tier 1 and Tier 2 to cover deductions	(3,898)	
	Common Equity Tier 1 capital (CET1)	**289,930**	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2015

Annexure III

1	**Issuer**	
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	-
4	Transitional Basel III rules	-
5	Post-transitional Basel III rules	-
6	Eligible at solo/group/group & solo	-
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	RO200.031 million
9	Par value of instrument	RO0.100 each
10	Accounting classification	Common Equity Shares
11	Original date of issuance	Various
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	Non Convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

pwc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HSBC BANK OMAN SAOG

Report on the financial statements

We have audited the accompanying financial statements of HSBC Bank Oman SAOG ("the Bank"), which comprise the statement of financial position as at 31 December 2015 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading ('R&G') issued by the Capital Market Authority ('CMA') of the Sultanate of Oman, we report that the accompanying financial statements have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974, as amended.

Other matter   prior period financial statements audited by a predecessor auditor

The financial statements of the Bank for the year ended 31 December 2014, were audited by another firm of auditors, whose report dated 26 January 2015 expressed an unmodified opinion on those financial statements. Our opinion is not modified in respect of this matter.

3 March 2016
Muscat, Sultanate of Oman

Statement of comprehensive income

For the year ended 31 December 2015

2014 US$'000	2015 US$'000		Notes	2015 RO'000	2014 RO'000
145,730	**145,603**	Interest income	3(a)	**56,057**	56,106
(18,813)	**(17,904)**	Interest expense	3(b)	**(6,893)**	(7,243)
126,917	**127,699**	**Net interest income**		**49,164**	48,863
36,325	**39,114**	Fee income		**15,059**	13,985
(3,696)	**(6,618)**	Fee expense		**(2,548)**	(1,423)
32,629	**32,496**	**Net fee income**		**12,511**	12,562
18,769	**18,190**	Net trading income		**7,003**	7,226
2,151	**974**	Dividend income		**375**	828
3,934	**11,642**	Other operating income	4	**4,482**	1,515
184,400	**191,001**	**Net operating income before loan impairment charges and other credit risk provisions**		**73,535**	70,994
(7,577)	**(8,919)**	Loan impairment charges and other credit risk provisions - net of recoveries	5	**(3,434)**	(2,917)
176,823	**182,082**	**Net operating income**		**70,101**	68,077
(137,657)	**(136,247)**	Operating expenses	6	**(52,455)**	(52,998)
(5,935)	**(5,935)**	Amortisation of intangible assets	7	**(2,285)**	(2,285)
(143,592)	**(142,182)**	**Total operating expenses**		**(54,740)**	(55,283)
33,231	**39,900**	**Profit before tax**		**15,361**	12,794
(1,416)	**(6,314)**	Tax expense	8	**(2,431)**	(545)
31,815	**33,586**	**Profit for the year**		**12,930**	12,249
		Other comprehensive income/(loss)			
		Items that will be reclassified subsequently to profit or loss when specific conditions are met			
		Available-for-sale investments			
(1,247)	**1,218**	- Fair value gain / (loss)	12	**469**	(480)
(179)	**(11,597)**	- Fair value gain reclassified to profit or loss on disposal		**(4,465)**	(69)
-	**57**	- Amount reclassified to profit or loss in respect of impairment		**22**	-
208	**1,195**	- Income tax	8	**460**	80
(1,218)	**(9,127)**			**(3,514)**	(469)
		Exchange differences			
-	**1,291**	- Foreign exchange loss reclassified to profit or loss on disposal of India and Pakistan operations	20(c)	**497**	-
(803)	**96**	- Effect of currency translation		**37**	(309)
(803)	**1,387**			**534**	(309)
		Items that will not be reclassified subsequently to profit or loss			
423	**(744)**	Remeasurement of defined benefit liability		**(287)**	163
(1,598)	**(8,484)**	**Other comprehensive loss for the period - net of tax**		**(3,267)**	(615)
30,217	**25,102**	**Total comprehensive income for the year**		**9,663**	11,634
US$0.016	**US$0.016**	**Earnings per share – basic and diluted**	9(a)	**RO0.006**	RO0.006

The accompanying notes on pages 60 to 104 form an integral part of these financial statements.

Statement of financial position
As at 31 December 2015

2014 US$'000	**2015 US$'000**		Notes	**2015 RO'000**	2014 RO'000
		Assets			
467,551	**721,392**	Cash and balances with central banks	**10(a)**	**277,736**	180,007
404,940	**26,678**	Due from banks	**10(b)**	**10,271**	155,902
3,016,397	**3,118,982**	Loans and advances to customers - net	**11**	**1,200,808**	1,161,313
1,730,262	**1,643,948**	Financial investments	**12**	**632,920**	666,151
94,564	**109,063**	Other assets	**13**	**41,989**	36,407
26,218	**20,283**	Intangible assets	**14**	**7,809**	10,094
77,954	**69,914**	Property and equipment	**15**	**26,917**	30,012
7,860	**3,876**	Deferred tax assets	**8**	**1,492**	3,026
5,825,746	**5,714,136**	**Total assets**		**2,199,942**	2,242,912
		Liabilities and equity			
		Liabilities			
75,883	**94,055**	Due to banks	**16**	**36,211**	29,215
4,811,270	**4,681,397**	Deposits from customers	**17**	**1,802,338**	1,852,339
124,636	**130,317**	Other liabilities	**18**	**50,172**	47,985
6,151	**6,086**	Current tax liabilities	**8**	**2,343**	2,368
2,930	**940**	Deferred tax liabilities	**8**	**362**	1,128
5,020,870	**4,912,795**	**Total liabilities**		**1,891,426**	1,933,035
		Equity			
519,561	**519,561**	Share capital	**19**	**200,031**	200,031
90,868	**94,227**	Legal reserve	**20(a)**	**36,277**	34,984
3,756	**-**	Statutory reserve	**20(b)**	**-**	1,446
(1,291)	**-**	Foreign exchange reserve	**20(c)**	**-**	(497)
11,940	**2,813**	Available-for-sale fair value reserve	**20(d)**	**1,083**	4,597
180,042	**184,740**	Retained earnings		**71,125**	69,316
804,876	**801,341**	**Net equity**		**308,516**	309,877
5,825,746	**5,714,136**	**Total equity and liabilities**		**2,199,942**	2,242,912
US$0.402	**US$0.401**	**Net assets per share**	9(b)	**RO0.154**	RO0.155
		Off-balance sheet items:			
		Contingent liabilities and commitments			
291,644	**179,426**	- Documentary credits		**69,079**	112,283
845,010	**956,010**	- Guarantees and performance bonds		**368,064**	325,329
2,580,364	**2,922,691**	- Others		**1,125,236**	993,440
3,717,018	**4,058,127**		**21(a)**	**1,562,379**	1,431,052

The accompanying notes on pages 60 to 104 form an integral part of these financial statements.

The financial statements were authorised for issue on 27 January 2016 in accordance with a resolution of the Board of Directors.

David Eldon

David Eldon
Chairman

Andrew Long
Chief Executive Officer

Statement of Changes in Equity

For the year ended 31 December 2015

	Share capital	Legal reserve	Statutory reserve	Available-for-sale fair value reserve	Foreign exchange reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2014	200,031	33,759	1,486	5,066	-	65,505	305,847
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	12,249	12,249
Other comprehensive income / (loss) for the period							
Exchange differences	-	-	(40)	-	(269)	-	(309)
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	(469)	-	-	(469)
Remeasurement of defined benefit liability	-	-	-	-	-	163	163
Total other comprehensive income / (loss) for the period	-	-	(40)	(469)	(269)	163	(615)
Total comprehensive income / (loss) for the period	-	-	(40)	(469)	(269)	12,412	11,634
Transfer to legal reserve	-	1,225	-	-	-	(1,225)	-
Transfer from retained profits	-	-	-	-	(228)	228	-
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2013	-	-	-	-	-	(7,604)	(7,604)
At 31 December 2014	200,031	34,984	1,446	4,597	(497)	69,316	309,877
Total comprehensive income for the period							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**12,930**	**12,930**
Other comprehensive income / (loss) for the period							
Effect of currency translation	**-**	**-**	**23**	**-**	**-**	**14**	**37**
Foreign exchange loss reclassified to profit or loss on disposal of India and Pakistan operations	**-**	**-**	**-**	**-**	**497**	**-**	**497**
Net movement in fair value of available-for-sale investments (net of tax)	**-**	**-**	**-**	**(3,514)**	**-**	**-**	**(3,514)**
Remeasurement of defined benefit liability	**-**	**-**	**-**	**-**	**-**	**(287)**	**(287)**
Total other comprehensive income / (loss) for the period	**-**	**-**	**23**	**(3,514)**	**497**	**(273)**	**(3,267)**
Total comprehensive income for the period	**-**	**-**	**23**	**(3,514)**	**497**	**12,657**	**9,663**
Transfer to retained profits on sale of India operations	**-**	**-**	**(1,469)**	**-**	**-**	**1,469**	**-**
Transfer to legal reserve	**-**	**1,293**	**-**	**-**	**-**	**(1,293)**	**-**
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2014	**-**	**-**	**-**	**-**	**-**	**(11,024)**	**(11,024)**
At 31 December 2015	**200,031**	**36,277**	**-**	**1,083**	**-**	**71,125**	**308,516**
At 31 December 2015 (USD 000's)	**519,561**	**94,227**	**-**	**2,813**	**-**	**184,740**	**801,341**
At 31 December 2014 (USD 000's)	519,561	90,868	3,756	11,940	(1,291)	180,042	804,876

The accompanying notes on pages 60 to 104 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2015

2014 US$'000	2015 US$'000		Notes	2015 RO'000	2014 RO'000
		Cash flows from operating activities			
33,231	**39,900**	Profit before tax		**15,361**	12,794
		Adjustments for:			
7,577	**8,919**	– Loan impairment (charges) and other credit risk provisions – net of recoveries		**3,434**	2,917
5,481	**4,865**	– Depreciation of property and equipment		**1,873**	2,110
229	**257**	– Property and equipment write off		**99**	88
5,935	**5,935**	– Amortisation of intangible assets		**2,285**	2,285
(174)	**(11,974)**	– Net gain on sale of a financial investment		**(4,610)**	(67)
(1,831)	**545**	– Amortisation and impairment of financial investment		**210**	(705)
(3,301)	**(171)**	– Gain on sale of property and equipment		**(66)**	(1,271)
-	**(2,117)**	– Gain on sale of India operations		**(815)**	-
-	**3,049**	– Loss on sale of Pakistan operations		**1,174**	-
410	**330**	– Employer's current service cost with interest		**127**	158
314	**257**	– Finance lease charge		**99**	121
(647)	**1,291**	– Effect of currency translation		**497**	(249)
		– change in operating assets			
(477,296)	**(111,610)**	change in loans and advances to customers-net		**(42,970)**	(183,759)
57,883	**(15,368)**	change in other assets		**(5,917)**	22,285
		– change in operating liabilities			
154,899	**(109,870)**	change in deposits from customers		**(42,300)**	59,636
(75,220)	**6,054**	change other liabilities		**2,331**	(28,960)
(566)	**(2,377)**	– Tax paid		**(915)**	(218)
(395)	**(574)**	– Retirement benefits paid		**(221)**	(152)
(293,471)	**(182,659)**	**Net cash (used in) operating activities**		**(70,324)**	(112,987)
		Cash flows from investing activities			
(17,545,681)	**(10,486,416)**	Purchase of financial investments		**(4,037,270)**	(6,755,087)
17,954,467	**10,569,449**	Proceeds from maturity of financial investments		**4,069,238**	6,912,470
(5,673)	**(4,787)**	Purchase of property and equipment		**(1,843)**	(2,184)
5,132	**1,927**	Proceeds from sale of property and equipment		**742**	1,976
-	**(6,608)**	Cash out flow from sale of India operation, net of cash and cash equivalents		**(2,544)**	-
-	**37,145**	Cash flow from sale of Pakistan operation, net of cash and cash equivalents		**14,301**	-
408,245	**110,710**	**Net cash generated from investing activities**		**42,624**	157,175
		Cash flows from financing activity			
(19,751)	**(28,634)**	Dividends paid		**(11,024)**	(7,604)
-	**(748)**	Finance leases paid		**(288)**	-
(19,751)	**(29,382)**	**Net cash used in financing activity**		**(11,312)**	(7,604)
95,023	**(101,331)**	**Net change in cash and cash equivalents**		**(39,012)**	36,584
660,322	**755,345**	Cash and cash equivalents at the beginning of the year		**290,808**	254,224
755,345	**654,014**	**Cash and cash equivalents at the end of the year**	25	**251,796**	290,808

The accompanying notes on pages 60 to 104 form an integral part of these financial statements.

Notes to the Financial Statements
As of 31 December 2015

1 Legal status and principal 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.

On 31 March 2015, HBON completed the disposal of its banking operations in India to Doha Bank QSC ('Doha Bank').

On 6 November 2015, HBON completed the disposal of its banking operations in Pakistan to Meezan Bank Limited ('MBL').

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

In October 2015, 1,020,159,523 shares in HBON were transferred to HMEH from HSBC Bank Middle East Limited ('HBME').

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

(a) Statement of compliance

The financial statements of the Bank at 31 December 2015 have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), the disclosure requirements and the applicable regulations of the Capital Market Authority ("CMA"), Central Bank of Oman ("CBO") and Commercial Companies Law of 1974, as amended.

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

The financial statements have been prepared on the historical cost basis except for available-for-sale investments and derivative financial instruments which are measured at fair value.

(b) Functional and presentation currency

The financial statements are presented in Rials Omani ("RO"), which is the functional currency of the primary economic environment in which the Bank operates. The United States Dollar amounts (rounded off to nearest thousand) disclosed in the financial statements have been translated from Rial Omani at the exchange rate of RO0.385 to each US Dollar, and are shown for the convenience of the reader only.

(c) Accounting for business combination

The purchase method of accounting is used to account for the business combination. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the statement of comprehensive income in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregation of the consideration transferred, the amount of non-controlling interest and the fair value of the acquirer's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed. In the event that the amount of net assets acquired is in excess of the aggregation of the consideration transferred, the difference is recognised immediately in the statement of comprehensive income.

(d) Use of estimates and assumptions

The preparation of the financial statements in conformation with IFRS 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 estimates upon which financial information is prepared. Management believes that the bank's critical accounting policies where judgement is necessarily

2 Summary of significant accounting polices *(continued)*

2.1 Basis of preparation *(continued)*

(d) Use of estimates and assumptions (continued)

applied are those which relate to the valuation of intangible assets recognised in business combinations, the useful lives of intangible assets, impairment of loans and advances, the valuation of financial instruments and the impairment of available-for-sale financial assets.

(e) Future accounting developments

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016. None of these is expected to have a significant effect on the financial statements of the Bank except the following set out below:

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

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

IFRS 15, 'Revenue from Contracts with Customer's, will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. This new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application, i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. The mandatory application date for IFRS 15 is 1 January 2018. The Bank is currently assessing the impact of this standard but it is not practicable to quantify the potential effect at the date of approval of these financial statements.

2.2 Foreign currency transactions

2.2.1 Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

2.2.2 Translation of financial statements of overseas branches

The assets and liabilities of the overseas branches that have a functional currency other than the Rial Omani are translated into Rial Omani at the year-end rates of exchange. The income and expenses of these overseas branches are translated into Rial Omani at average exchange rates for the period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the year-end, are recognised in other comprehensive income. On disposal

2 Summary of significant accounting polices *(continued)*

2.2 Foreign currency transactions *(continued)*

2.2.2 Translation of financial statements of overseas branches (continued)

of a foreign operation, exchange differences relating thereto and previously recognised in other comprehensive income are reclassified to the profit or loss as a reclassification adjustment when the gain or loss on disposal is recognised.

2.3 Financial instruments

All financial instruments are recognised initially at fair value at trade date. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognises a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data has a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the statement of comprehensive income. Instead, it is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Bank enters into an offsetting transaction. Financial instruments include cash and balances with central banks, due from banks, loans and advances to customers, financial investments, acceptances, due to banks, deposits from customers and other financial assets and liabilities.

2.3.1 Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

– financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and

– financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

2.3.2 Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by the Bank which are not classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment relating only to the hedged risk.

2 Summary of significant accounting polices *(continued)*

2.3 Financial instruments *(continued)*

2.3.2 Loans and advances to banks and customers (continued)

Loans and advances are reclassified to held for sale when their carrying amounts are to be recovered principally through sale, they are available for sale in their present condition and their sale is highly probable; however, such loans and advances continue to be measured in accordance with the policy described above.

The Bank may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the Bank. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative and measured at fair value through profit or loss. On drawdown, the loan is classified as held for trading and measured at fair value through profit or loss. Where it is not the Bank's intention to trade but hold the loan, a provision on the loan commitment is only recorded where it is probable that the Bank will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the held portion is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. For certain transactions, such as leverage finance and syndicated lending activities, the cash advanced is not necessarily the best evidence of the fair value of the loan. For these loans, where the initial fair value is lower than the cash amount advanced (for example, due to the rate of interest charged on the loan being below the market rate of interest), the write-down is charged to the statement of comprehensive income. The write-down will be recovered over the life of the loan, through the recognition of interest income using the effective interest method, unless the loan becomes impaired. The write down is recorded as a reduction to other operating income.

Financial assets which have been reclassified into the loans and receivables category are initially recorded at the fair value at the date of reclassification and are subsequently measured at amortised cost, using the effective interest rate determined at the date of reclassification.

2.3.3 Available-for-sale financial assets

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale or held-to-maturity. Financial investments are recognised on trade date, when the Bank enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale investments – 'fair value reserve' until the financial assets are either sold or become impaired. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the profit or loss as 'Gains or losses from financial investments'.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates. Dividends are recognised in the statement of comprehensive income when the right to receive payment has been established.

At each reporting date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset.

2 Summary of significant accounting polices *(continued)*

2.3 Financial instruments *(continued)*

2.3.3 Available-for-sale financial assets (continued)

Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated..

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in other comprehensive income, is removed from other comprehensive income and recognised in the profit or loss.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provisions' in the statement of comprehensive income and impairment losses for available-for-sale equity securities are recognised within 'Gains or losses from financial investments' in the statement of comprehensive income. The impairment methodologies for available-for-sale financial assets are set out in more detail below:

a. Available-for-sale debt securities: When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganization, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer. These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

b. Available-for-sale equity securities: Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also an objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the statement of comprehensive income when there is further objective evidence of impairment as a result of further decrease in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognised in other comprehensive income.

2 Summary of significant accounting polices *(continued)*

2.3 Financial instruments *(continued)*

2.3.3 Available-for-sale financial assets (continued)

If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, otherwise, any increase in fair value is recognised in other comprehensive income.

For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the statement of comprehensive income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the statement of comprehensive income and other comprehensive income, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security

2.3.4 Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category included all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps and forward foreign exchange contracts that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

2.4 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Hedge accounting

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments,

2 Summary of significant accounting polices *(continued)*

2.4 Derivative financial instruments and hedge accounting *(continued)*

primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the statement of comprehensive income, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to the statement of comprehensive income based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is released to the statement of comprehensive income immediately.

2.5 Cash and cash equivalents

Cash and cash equivalents consist of cash balances in hand; balances with banks and other financial institutions and CBO; items in the course of collection from other banks; deposits with banks and other financial institutions maturing within three months of the date of acquisition; and amounts due to banks and other financial institutions payable within three months.

2.6 Money market placements

Money market placements are stated at amortised cost.

2.7 Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised on the day they are transferred by the Bank.

2.8 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.9 Impairment - loans and advances

Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce those loans and advances to their recoverable amounts. The recoverable amount of loans and advances is calculated at the present value of expected future cash flows discounted at the original effective interest rate. Short term balances are not discounted.

Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically identified within the portfolio of loans and advances.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. The expected cash flows for portfolios of similar assets are estimated based on previous

2 **Summary of significant accounting polices *(continued)***

2.9 Impairment - loans and advances *(continued)*

experience and considering the credit rating of the underlying customers and late payments of interest or penalties.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of comprehensive income.

2.10 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land, by equal installments over the estimated economic useful lives from the date the asset is brought into use, as follows:

Buildings	25 years
Leasehold improvements	3-5 years
Motor vehicles	5 years
Equipment, furniture and fixtures	3-7 years
Computer, software and equipment	3-7 years

Computer software includes both purchased and internally generated software. The cost of internally generally software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit for the year. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred. Management annually reviews the appropriateness of useful lives, residual values and depreciation methods for property and equipment. Property and equipment are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

2.11 Finance and operating lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Bank is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Loans and advances - net'. The finance income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Bank is a lessee under finance leases, the leased assets are capitalised and included in 'Property and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When acting as lessor, the Bank includes the assets subject to operating leases in 'Property and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Bank is the lessee, leased assets are not recognised on the statement of financial position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in

Board of Directors' Report
Corporate Governance Report
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2 Summary of significant accounting polices *(continued)*

'General and administrative expenses' and 'Other operating income', respectively.

2.12 Intangible assets

Intangible assets are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Intangible assets includes core deposit relationships and customer relationships. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Intangible assets that have a finite useful life are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life.

Intangible assets with finite useful lives are amortised on a straight-line basis, over their useful lives as follows

Core deposits	7 years
Customer relationships	7 years

Amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The remaining life of intangible assets is 3.4 years as at 31 December 2015.

2.13 Provisions

A provision is recognised in the statement of financial position when the Bank has present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows using a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as cost.

2.14 Other payables

Other payables are stated at amortised cost.

2.15 Revenue recognition

2.15.1 Interest income and expense

Interest income and expense for all financial instruments except for those classified as held-for-trading or designated at fair value (other than debt securities issued by the Bank and derivatives managed in conjunction with such debt securities issued) are recognised in 'Interest income' and 'Interest expense' in the statement of comprehensive income using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

2.15.2 Non-interest income

Net fee income is earned from a diverse range of services provided by the Bank to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other

2 Summary of significant accounting polices *(continued)*

2.15 Revenue recognition *(continued)*

2.15.2 Non-interest income *(continued)*

management advisory and service fees); and

- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with related interest income, expense and dividends.

Net expense/income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on these financial instruments are also included, except for interest arising from debt securities issued, and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest expense'.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

Other income is credited to income at the time of effecting the transaction.

2.16 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent it relates to a business combination or items recognised directly in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for in respect of initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.17 Employee terminal benefits

Contributions to defined contribution retirement plans, for Omani employees in accordance with the Oman Social Insurance Scheme, and for international employees in accordance with the HSBC International Staff Retirement Benefit Scheme, are recognised as expenses in the statement of comprehensive income as incurred.

The Bank's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations.

Notes to the Financial Statements
As of 31 December 2015

2 Summary of significant accounting polices *(continued)*

2.17 Employee terminal benefits *(continued)*

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in other comprehensive income.

Actuarial gains and losses comprise experience adjustments (the effect of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

2.18 Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Asset Liability Committee ('ALCO'), the Chief Operating decision maker, to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the ALCO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly property and equipment, other assets and other related items which are not reported under other business segments.

3 Net interest income

	2015	2014
	RO'000	RO'000
3a) Interest income		
Loans and advances to customers	**52,984**	52,580
Financial investments	**2,570**	2,775
Due from banks	**503**	751
	56,057	56,106
3b) Interest expense		
Deposits from customers	**(6,591)**	(6,848)
Due to banks	**(302)**	(395)
	(6,893)	(7,243)
Net interest income	**49,164**	48,863

4 Other operating income

	2015	2014
	RO'000	RO'000
Gains on sale of financial investments - net	**4,610**	67
Gain on sale of India operations	**815**	-
Gain on sale of property and equipment	**66**	1,271
Loss on sale of Pakistan operations	**(1,174)**	-
Gain on sale of syndicated loans	**-**	17
Other income	**165**	160
	4,482	1,515

Notes to the Financial Statements (continued)
As of 31 December 2015

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

	2015 RO'000	2014 RO'000
Provided during the year – specific (note 11)	**(7,483)**	(6,203)
Provided during the year – general (note 11)	**(558)**	(1,644)
Written-off loans recovered	**2,205**	2,083
Provisions released during the year (note 11)	**1,856**	1,622
Adjustments as a result of fair value unwind	**770**	979
Reserved interest released	**298**	380
Bad debts directly written off to the statement of comprehensive income	**(522)**	(134)
	(3,434)	(2,917)

6 Operating expenses

	2015 RO'000	2014 RO'000
Employee compensation and benefits		
Wages and salaries	**(17,462)**	(17,698)
Social security costs	**(1,475)**	(1,208)
Post-employment benefits	**(199)**	(318)
Other employee benefits	**(4,830)**	(4,947)
	(23,966)	(24,171)
Depreciation of property and equipment (note 15)	**(1,873)**	(2,110)
Marketing and advertising*	**(2,277)**	(2,460)
Premises and equipment	**(4,971)**	(4,645)
Communications	**(986)**	(814)
Insurance	**(1,237)**	(1,148)
Other administrative expenses	**(17,145)**	(17,650)
	(52,455)	(52,998)

*Marketing and advertising expenses for the current year include RO1.2m (December 2014 : RO1.7m) of "Mandoos Prize" draw expenses.

7 Amortisation of intangible assets

	2015 RO'000	2014 RO'000
This represents amortisation of intangible assets as follows :		
Core deposits	**(1,758)**	(1,758)
Customer relationships	**(527)**	(527)
	(2,285)	(2,285)

Notes to the Financial Statements
As of 31 December 2015

8 Taxation

	2015 RO'000	2014 RO'000
Statement of comprehensive income:		
Current tax:		
- Current year	**(2,173)**	(1,387)
- Prior years	**1,277**	1,756
Deferred tax	**(1,535)**	(914)
	(2,431)	(545)
Statement of other comprehensive income:		
Deferred tax	**460**	80

Tax reconciliation

	2015 RO'000	2015 Percentage of profit before tax %	2014 RO'000	2014 Percentage of profit before tax %
Profit before tax	**15,361**		12,794	
Tax expenses at 12% on accounting profit before tax	**(1,843)**	**-12.0%**	(1,535)	-12.0%
Add / (less) tax effect of:				
Non-taxable income and gains	**49**	**0.2%**	194	1.5%
Deferred tax on temporary differences not recognised	**-**	**-**	125	1.0%
Permanent disallowed expenses	**(637)**	**-4.1%**	(394)	-3.1%
Adjustments in respect of prior periods	**-**	**-**	1,065	8.3%
Tax charge as per the statement of comprehensive income	**(2,431)**	**-15.8%**	(545)	-4.3%

Movement of current tax liability

	2015 RO'000	2014 RO'000
At 1 January	**2,368**	4,155
- Current year charge	**2,173**	1,387
- Paid during the year	**(915)**	(1,418)
- Prior year release	**(1,277)**	(1,756)
- Movement due to sale of India operations	**(6)**	-
At 31 December	**(2,343)**	(2,368)

Notes to the Financial Statements (continued)
As of 31 December 2015

8 Taxation *(continued)*

Movement of net deferred tax assets before offsetting

	Loan impairment allowances	Available-for-sale investments	Revaluation of property	Others*	Total
Assets	**2,703**	**-**	**-**	**323**	**3,026**
Liabilities	**-**	**(822)**	**(269)**	**(37)**	**(1,128)**
At 1 January 2015	**2,703**	**(822)**	**(269)**	**286**	**1,898**
Movement due to sale of India operations	**-**	**-**	**269**	**38**	**307**
Income statement	**(1,302)**	**-**	**-**	**(233)**	**(1,535)**
Other comprehensive income:					
- available-for-sale investment	**-**	**460**	**-**	**-**	**460**
	1,401	**(362)**	**-**	**91**	**1,130**
Assets	**1,401**	**-**	**-**	**91**	**1,492**
Liabilities	**-**	**(362)**	**-**	**-**	**(362)**
At 31 December 2015	**1,401**	**(362)**	**-**	**91**	**1,130**
Assets	3,309	-	-	650	3,959
Liabilities	-	(902)	(277)	(58)	(1,237)
At 1 January 2014	3,309	(902)	(277)	592	2,722
Income statement	(606)	-	-	(308)	(914)
Other comprehensive income:					
- available-for-sale investment	-	80	-	-	80
Foreign exchange and other adjustments	-	-	8	2	10
	2,703	(822)	(269)	286	1,898
Assets	2,703	-	-	323	3,026
Liabilities	-	(822)	(269)	(37)	(1,128)
At 31 December 2014	2,703	(822)	(269)	286	1,898

*Others include deferred tax assets on expense provisions and temporary difference between accounting and tax base of property and equipments.

The tax assessments of the HSBC Oman Branches have been completed upto the year 2011 and the tax assessments of Oman International Bank SAOG (OIB) have been completed by the Secretariat General for Taxation (SGT) up to 2011. The SGT has taken up the assessment for the year 2012.

With respect to erstwhile OIB, separate Appeals to the Primary Court have been filed for the years 2003 to 2004 and 2005 to 2006 (OIB) in connection with the disallowance of general loan loss provisions. The Decision of the Primary Court is pending.

The tax rate applicable to the Bank in Oman is 12% (2014: 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments, the average effective tax rate is 15.8% (2014: 4.3%).

The difference between the applicable tax rates of 12% and the effective tax rate of 15.8% arises mainly due to completion of assessments of the Oman Branches wherein certain expenses considered to be disallowed for tax provisioning purposes were allowed as a tax deduction by the SGT and tax effect of certain expenses considered to be disallowed for tax provisioning purposes for open years on the basis of prior years assessments. The adjustments are based on the current understanding of the existing laws, regulations and practices.

Deferred tax asset has been computed at the tax rate of 12% (2014: 12%).

Notes to the Financial Statements
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9 a) Earnings per share – basic and diluted

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2015	2014
Weighted average number of shares in issue (Number '000)	**2,000,312**	2,000,312
Profit for the year (RO'000)	**12,930**	12,249
Earnings per share – basic and diluted (RO)	**0.006**	0.006

b) Net asset per share

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

	2015	2014
Number of shares in issue (Number '000)	**2,000,312**	2,000,312
Net assets (RO'000)	**308,516**	309,877
Net assets per share (RO)	**0.154**	0.155

10 (a) Cash and balances with central bank

	2015 RO'000	2014 RO'000
Cash in hand	**44,505**	48,071
Balance held with central banks	**233,231**	131,936
	277,736	180,007

(b) Due from banks

	2015 RO'000	2014 RO'000
Placements	**8,317**	149,097
Nostro balances	**1,954**	6,805
	10,271	155,902

11 Loans and advances to customers - net

	2015 RO'000	2014 RO'000
Overdrafts	**66,130**	79,453
Loans	**1,204,540**	1,138,184
Bills discounted/purchased	**13,394**	43,522
Gross loans and advances	**1,284,064**	1,261,159
Provision for loan impairment – specific	**(28,380)**	(36,192)
Provision for loan impairment – general*	**(16,435)**	(15,880)
Reserved interest	**(38,441)**	(47,774)
Loans and advances (net)	**1,200,808**	1,161,313

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

Notes to the Financial Statements (continued)
As of 31 December 2015

11 Loans and advances to customers (*continued*)

Nature of customer advances

	2015 RO'000	2014 RO'000
Gross		
Overdrafts	**66,130**	79,453
Credit cards	**17,880**	11,440
Loans	**1,078,106**	992,824
Clean import loans	**108,554**	133,920
Bills discounted/purchased	**13,394**	43,522
	1,284,064	1,261,159

Provision for loan impairment and reserved interest:

The movement on provision for loan impairment for the year ended 31 December 2015 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2015	**36,192**	**15,880**	**52,072**
Currency translation effect on opening balance	**(34)**	**-**	**(34)**
Movement due to sale of India and Pakistan operations	**(758)**	**(3)**	**(761)**
Provided during the year (note 5)	**7,483**	**558**	**8,041**
Provision released during the year (note 5)	**(1,856)**	**-**	**(1,856)**
Written off during the year	**(12,647)**	**-**	**(12,647)**
Balance at 31 December 2015	**28,380**	**16,435**	**44,815**

The movement on provision for loan impairment for the year ended 31 December 2014 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2014	37,049	14,237	51,286
Currency translation effect on opening balance	33	(1)	32
Provided during the year (note 5)	6,203	1,644	7,847
Provision released during the year (note 5)	(1,622)	-	(1,622)
Written off during the year	(5,471)	-	(5,471)
Balance at 31 December 2014	36,192	15,880	52,072

The movement on reserved interest during the year is analysed as follows:

	2015 RO'000	2014 RO'000
Balance at 1 January 2015	**47,774**	49,717
Currency translation effect on opening balance	**(5)**	5
Movement due to sale of Pakistan operations	**(91)**	-
Reserved during the year	**9,090**	10,698
Released to the statement of comprehensive income	**(847)**	(1,027)
Written off during the year	**(17,480)**	(11,619)
Balance at 31 December 2015	**38,441**	47,774

Notes to the Financial Statements
As of 31 December 2015

12 Financial investments

	2015 RO'000	2014 RO'000
Available-for-sale investments	**632,920**	666,151

Financial investments details by sector are provided as follows:

	Fair value 31 December 2015 RO'000	Fair value 31 December 2014 RO'000	**Carrying value 31 December 2015 RO'000**	Carrying value 31 December 2014 RO'000	**Cost 31 December 2015 RO'000**	Cost 31 December 2014 RO'000
Marketable securities – local (MSM)						
Finance	**2,288**	2,370	**2,288**	2,370	**1,911**	1,911
Insurance	**398**	398	**398**	398	**340**	340
Industrial	**-**	43	**-**	43	**-**	54
Government bonds	**85,424**	44,531	**85,424**	44,531	**85,036**	43,736
	88,110	47,342	**88,110**	47,342	**87,287**	46,041
Marketable securities – foreign						
Government securities	**-**	9,759	**-**	9,759	**-**	9,759
Foreign shares	**-**	5,274	**-**	5,274	**-**	2,340
	-	15,033	**-**	15,033	**-**	12,099
Unquoted and other investments						
Certificates of deposits	**-**	590,022	**-**	590,022	**-**	590,022
Treasury bills	**540,957**	-	**540,957**	-	**540,496**	-
Unquoted Omani shares*	**260**	1,010	**260**	1,010	**260**	1,010
Unquoted foreign shares*	**67**	67	**67**	67	**67**	67
Investment fund units	**3,526**	12,677	**3,526**	12,677	**3,590**	11,717
	544,810	603,776	**544,810**	603,776	**544,413**	602,816
Total	**632,920**	666,151	**632,920**	666,151	**631,700**	660,956

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

Details of classification of investments are given below:

	2015 RO'000	2014 RO'000
Cost of:		
Quoted - Foreign Government securities	**-**	9,759
Quoted - Equity and other securities	**87,287**	48,381
Unquoted and other investments	**544,413**	602,816
	631,700	660,956
Revaluation gain	**1,220**	5,195
	632,920	666,151

12 Financial investments *(continued)*

Movements of investments are given below:

	2015 RO'000	2014 RO'000
Balance at the beginning of the year	**666,151**	823,311
Movement due to sale of India operations	**(1,904)**	-
Purchased during the year	**4,037,720**	6,755,087
Sold during the year	**(4,069,469)**	(6,912,406)
Gain / (loss) from changes in fair value	**469**	(480)
Amortisation of (premium) / discount, net	**(210)**	705
Currency translation effect in opening balance	**163**	(66)
Balance at the end of the year	**632,920**	666,151

13 Other assets

	2015 RO'000	2014 RO'000
Acceptances	**35,477**	30,550
Derivatives - positive mark-to-market [note 21(d)]	**3,733**	2,489
Prepayments	**1,159**	1,649
Others	**1,620**	1,719
	41,989	36,407

14 Intangible assets

	2015 RO'000	2014 RO'000
Core deposits	**12,306**	12,306
Customer relationships	**3,691**	3,691
	15,997	15,997
Less: amortised	**(8,188)**	(5,903)
	7,809	10,094

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15 Property and equipment

The movement in property and equipment during the year 2015 is as follows:

	Freehold land and buildings	Leasehold property and impro-vements	Equipment, furniture and fixtures	Motor vehicles	Computer equipment*	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost							
1 January 2015	33,774	4,392	8,667	863	6,441	19	54,156
Currency translation effect on opening balances	66	(1)	(1)	-	1	-	65
Movement due to sale of India and Pakistan operations	(4,337)	(33)	(194)	(27)	(385)	-	(4,976)
Reclassification	-	51	(1,717)	(5)	1,671	-	-
Additions	657	243	751	-	192	-	1,843
Disposals/write offs	(660)	-	-	(501)	(267)	(19)	(1,447)
31 December 2015	29,500	4,652	7,506	330	7,653	-	49,641
Accumulated depreciation							
1 January 2015	8,128	3,539	7,124	716	4,637	-	24,144
Currency translation effect on opening balances	28	(1)	(2)	-	2	-	27
Movement due to sale of India and Pakistan operations	(2,031)	(28)	(183)	(25)	(381)	-	(2,648)
Reclassification	-	44	(1,611)	-	1,567	-	-
Charge for the year	396	285	560	44	588	-	1,873
Disposals/write offs	(3)	-	-	(501)	(168)	-	(672)
31 December 2015	6,518	3,839	5,888	234	6,245	-	22,724
Net book value							
31 December 2015	22,982	813	1,618	96	1,408	-	26,917

*Includes Automatic teller machines ('ATM') purchased on finance lease with net book value of RO0.8m (2014: RO1.0m)

Notes to the Financial Statements (continued)
As of 31 December 2015

15 Property and equipment *(continued)*

The movement in property and equipment for the year 2014 is as follows:

	Freehold land and buildings	Leasehold property and improvements	Equipment, furniture and fixtures	Motor vehicles	Computer equipment	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost							
1 January 2014	34,656	4,051	9,651	921	17,107	18	66,404
Currency translation effect on opening balances	(118)	1	(2)	(1)	(1)	1	(120)
Additions	840	685	249	43	367	-	2,184
Disposals/write offs	(1,604)	(345)	(1,231)	(100)	(11,032)	-	(14,312)
31 December 2014	33,774	4,392	8,667	863	6,441	19	54,156
Accumulated depreciation							
1 January 2014	8,491	3,589	7,684	771	14,801	-	35,336
Currency translation effect on opening balances	(56)	3	(3)	(1)	(4)	-	(61)
Charge for the year	591	252	497	46	724	-	2,110
Disposals/write offs	(898)	(305)	(1,054)	(100)	(10,884)	-	(13,241)
31 December 2014	8,128	3,539	7,124	716	4,637	-	24,144
Net book value							
31 December 2014	25,646	853	1,543	147	1,804	19	30,012

16 Due to banks

	2015	2014
	RO'000	RO'000
Interbank borrowings	**1,925**	4,258
Vostro and other balances	**34,286**	24,957
	36,211	29,215

17 Deposits from customers

	2015	2014
	RO'000	RO'000
Current and call	**965,245**	969,732
Savings	**470,161**	457,911
Time deposits	**364,589**	419,780
Others	**2,343**	4,916
	1,802,338	1,852,339

Notes to the Financial Statements
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18 Other liabilities

	2015 RO'000	2014 RO'000
Acceptances	**35,477**	30,550
Accruals and deferred income	**4,930**	5,617
Obligations under finance leases [note 21(e)]	**964**	1,153
Provisions [note 18(b)]	**535**	1,963
Retirement benefit liability [note 18(a)]	**636**	446
Derivatives - negative mark-to-market [note 21(d)]	**204**	1,009
Others	**7,426**	7,247
	50,172	47,985

18 (a) Movement of retirement benefit liability

	2015 RO'000	2014 RO'000
Opening defined benefit obligation	**446**	603
Employer's current service cost, with interest	**127**	158
Actuarial losses / (gains) on obligations	**287**	(163)
Benefits paid	**(221)**	(152)
Movement due to sale of India operations	**(3)**	-
Present value of liabilities at the end of the period	**636**	446

18 (b) Movement of provisions

	2015 RO'000	2014 RO'000
Balance at the beginning of the year	**1,963**	5,364
Provision made during the year	**193**	860
Provision utilised during the year	**(1,339)**	(3,894)
Provision released during the year	**(282)**	(367)
Balance at the end of the year	**535**	1,963

These include RO0.5m (2014: RO2.0m) relating to legal proceedings, restructuring and customer remediation provisions.

19 Share capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

The share capital of the Bank is divided into 2,000,312,790 fully paid ordinary shares of RO0.100 each (2014: 2,000,312,790 ordinary shares of RO 0.100 each) against the authorised ordinary share capital of 7,500 million shares of RO0.100 each (2014: 7500 million shares of RO0.100 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:

	2015 Number of shares	2014 Number of shares
HSBC Middle East Holdings BV	**1,020,159,523**	-
HSBC Bank Middle East Limited	**-**	1,020,159,523

Notes to the Financial Statements (continued)
As of 31 December 2015

20 Reserves

(a) Legal reserve

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

(b) Statutory reserve

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

(c) Foreign exchange reserve

Foreign exchange reserve represents exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, recognised in other comprehensive income. Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in other comprehensive income are reclassified to the statement of comprehensive income as a reclassification adjustment when the gain or loss on disposal is recognised.

d) Available-for-sale fair value reserve

Available-for-sale fair value reserve represents fair value changes in available-for-sale financial assets.

21 Contingent liabilities, commitments and derivatives

(a) Contingent liabilities and other commitments

	2015 RO'000	2014 RO'000
Undrawn unconditionally cancellable commitments	**576,767**	566,465
Undrawn unconditionally non-cancellable commitments	**204,612**	179,469
Forward forex contracts outstanding	**266,857**	155,670
Interest rate swaps	**77,000**	91,836
	1,125,236	993,440
Letters of credit	**69,079**	112,283
Guarantees and performance bonds	**368,064**	325,329
	1,562,379	1,431,052

(b) Legal cases

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

(c) Capital and investment commitments

At 31 December 2015, there were capital and investment commitments amounting to RO0.03m (2014: RO1.2m).

(d) Derivatives

In the ordinary course of business, the Bank enters into various types of transactions that

21 Contingent liabilities, commitments and derivatives *(continued)*

(d) Derivatives *(continued)*

involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instruments, reference rate or index. Derivative instruments include forwards, futures, swaps and options.

The table below sets out the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

Forward foreign exchange contracts are measured using level I and interest rate swaps are measured using level II of fair value hierarchy.

31 December 2015:

	Positive fair value RO'000	**Negative fair value RO'000**	**Total notional amount RO'000**
Derivatives held for trading:			
Forward foreign exchange contracts	**167**	**204**	**266,857**
Interest rate swaps	**3,566**	**-**	**77,000**
	3,733	**204**	**343,857**

31 December 2014:

	Positive fair value RO'000	Negative fair value RO'000	Total notional amount RO'000
Derivatives held for trading:			
Forward foreign exchange contracts	713	769	155,670
Interest rate swaps	1,776	240	91,836
	2,489	1,009	247,506

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates to make payments with respect to defined credit events based on specified notional amounts.

(e) Lease commitments

Operating lease commitments

At 31 December 2015, annual commitments under non-cancellable operating leases were RO1.7m (2014: RO1.7m).

Finance lease commitments

The Bank leases Automatic Teller Machines ('ATM') from third parties under finance lease arrangements to support its operations.

Notes to the Financial Statements (continued)
As of 31 December 2015

21 Contingent liabilities, commitments and derivatives *(continued)*

(e) Lease commitments (continued)

Finance lease commitments (continued)

Lease commitments:	At 31 December 2015 Total future minimum payments RO'000	Future interest charges RO'000	Present value of finance lease commitments RO'000	At 31 December 2014 Total future minimum payments RO'000	Future interest charges RO'000	Present value of finance lease commitments RO'000
– No later than one year	565	(82)	483	592	(110)	482
– Later than one year and up to five years	565	(84)	481	848	(177)	671
	1,130	(166)	964	1,440	(287)	1,153

22 Maturities of assets and liabilities

Maturity analysis of assets and liabilities is as follows:

	On demand or within 3 months RO'000	3 to 12 months RO'000	Over 1 year RO'000	Total RO'000
At 31 December 2015				
Assets				
Cash and balances with central banks	277,736	-	-	277,736
Due from banks	10,271	-	-	10,271
Loans and advances to customers - net	395,823	44,566	760,419	1,200,808
Financial investments	337,350	216,646	78,924	632,920
Other assets	35,932	2,491	3,566	41,989
Intangible assets	571	1,714	5,524	7,809
Property and equipment	-	-	26,917	26,917
Deferred tax assets	1,492	-	-	1,492
Total assets	1,059,175	265,417	875,350	2,199,942
Liabilities and equity				
Due to banks	36,211	-	-	36,211
Deposits from customers	1,563,796	49,186	189,356	1,802,338
Other liabilities	46,342	2,714	1,116	50,172
Current tax liabilities	2,343	-	-	2,343
Deferred tax liabilities	362	-	-	362
Net equity	-	12,930	295,586	308,516
Total liabilities and equity	1,649,054	64,830	486,058	2,199,942

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22 Maturities of assets and liabilities *(continued)*

	On demand or within 3 months	3 to 12 months	Over 1 year	Total
	RO'000	RO'000	RO'000	RO'000
At 31 December 2014				
Assets				
Cash and balances with central banks	164,690	-	15,317	180,007
Due from banks	155,902	-	-	155,902
Loans and advances to customers - net	315,331	110,991	734,991	1,161,313
Financial investments	599,593	324	66,234	666,151
Other assets	29,120	5,421	1,866	36,407
Intangible assets	571	1,714	7,809	10,094
Property and equipment	-	-	30,012	30,012
Deferred tax assets	3,026	-	-	3,026
Total assets	1,268,233	118,450	856,229	2,242,912
Liabilities and equity				
Due to banks	29,215	-	-	29,215
Deposits from customers	1,568,262	93,139	190,938	1,852,339
Other liabilities	41,113	5,733	1,139	47,985
Current tax liabilities	2,368	-	-	2,368
Deferred tax liabilities	1,128	-	-	1,128
Net equity	-	12,249	297,628	309,877
Total liabilities and equity	1,642,086	111,121	489,705	2,242,912

Although the contractual repayments of many customer accounts are on demand or at short notice, in practice short-term deposit balances remain stable as inflows and outflows broadly match also in the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

23 Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the year to repricing of assets and that of the corresponding liability funding. The Bank manages these mismatches in accordance with HSBC Group policy guidelines and reduces risk by matching the repricing of assets and liabilities through various means. Significant changes in gap positions can be made to adjust the profile as market outlooks change. Additionally, whilst mismatches exist, liabilities maturing are to a great extent historically rolled over rather than withdrawn.

	Effective average interest rate%	within 3 months	3 to 12 months	Over 1 year	Not interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2015						
Assets						
Cash and balances with central banks		53,900	-	-	223,836	277,736
Due from banks	0.28%	8,317	-	-	1,954	10,271
Loans and advances to customers – net	4.40%	560,041	129,394	511,373	-	1,200,808
Financial investments	0.46%	337,350	216,646	72,385	6,539	632,920
Other assets		-	-	-	41,989	41,989
Intangible assets		-	-	-	7,809	7,809
Property and equipment		-	-	-	26,917	26,917
Deferred tax assets		-	-	-	1,492	1,492
Total assets		959,608	346,040	583,758	310,536	2,199,942
Liabilities and equity						
Due to banks	0.56%	1,925	-	-	34,286	36,211
Deposits from customers	0.35%	350,133	299,647	188,982	963,576	1,802,338
Other liabilities		-	-	-	50,172	50,172
Current tax liabilities		-	-	-	2,343	2,343
Deferred tax liabilities		-	-	-	362	362
Net equity		-	-	-	308,516	308,516
Total liabilities and equity		352,058	299,647	188,982	1,359,255	2,199,942
Interest sensitivity gap:						
- **Net**		607,550	46,393	394,776	(1,048,719)	-
- **Cumulative**		607,550	653,943	1,048,719	-	-

23 Interest rate sensitivity gap *(continued)*

	Effective average interest rate%	within 3 months	3 to 12 months	Over 1 year	Not interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2014						
Assets						
Cash and balances with central banks		39,046	-	-	140,961	180,007
Due from banks	0.29%	149,097	-	-	6,805	155,902
Loans and advances to customers – net	4.78%	315,333	110,949	735,031	-	1,161,313
Financial investments	0.42%	599,401	324	44,587	21,839	666,151
Other assets		-	-	-	36,407	36,407
Intangible assets		-	-	-	10,094	10,094
Property and equipment		-	-	-	30,012	30,012
Deferred tax assets		-	-	-	3,026	3,026
Total assets		1,102,877	111,273	779,618	249,144	2,242,912
Liabilities and equity						
Due to banks	0.72%	4,258	-	-	24,957	29,215
Deposits from customers	0.37%	257,292	93,140	190,939	1,310,968	1,852,339
Other liabilities		-	-	-	47,985	47,985
Current tax liabilities		-	-	-	2,368	2,368
Deferred tax liabilities		-	-	-	1,128	1,128
Equity		-	-	-	309,877	309,877
Total liabilities and equity		261,550	93,140	190,939	1,697,283	2,242,912
Interest sensitivity gap:						
- Net		841,327	18,133	588,679	(1,448,139)	-
- Cumulative		841,327	859,460	1,448,139	-	-

Sensitivity analysis – equity price risk

Quoted equity investments of the Bank are listed on Muscat Securities Market ("MSM"). For such investments classified as available for sale investments, a 5% increase in MSM 30 index would have increased other comprehensive income by RO134,298 (2014:RO140,565); an equal change in the opposite direction would have decreased other comprehensive income by RO134,298 (2014: RO140,565).

24 Financial assets and liabilities

Accounting classifications and fair values as at 31 December 2015

	Available for sale RO'000	Financial assets and liabilities at amortised cost RO'000	Total RO'000
Cash and balances with central banks	**-**	**277,736**	**277,736**
Due from banks	**-**	**10,271**	**10,271**
Loans and advances to customers - net	**-**	**1,200,808**	**1,200,808**
Financial investments	**632,920**	**-**	**632,920**
Other assets	**-**	**39,210**	**39,210**
Total financial assets	**632,920**	**1,528,025**	**2,160,945**
Total non-financial assets			**38,997**
Total assets			**2,199,942**
Due to banks	**-**	**36,211**	**36,211**
Deposits from customers	**-**	**1,802,338**	**1,802,338**
Other liabilities	**-**	**40,559**	**40,559**
Total financial liabilities	**-**	**1,879,108**	**1,879,108**
Total non-financial liabilities			**12,318**
Total liabilities			**1,891,426**

Accounting classifications and fair values as at 31 December 2014

	Available for sale RO'000	Financial assets and liabilities at amortised cost RO'000	Total RO'000
Cash and balances with central banks	-	180,007	180,007
Due from banks	-	155,902	155,902
Loans and advances to customers - net	-	1,161,313	1,161,313
Financial investments	666,151	-	666,151
Other assets	-	33,039	33,039
Total financial assets	666,151	1,530,261	2,196,412
Total non-financial assets			46,500
Total assets			2,242,912
Due to banks	-	29,215	29,215
Deposits from customers	-	1,852,339	1,852,339
Other liabilities	-	38,329	38,329
Total financial liabilities	-	1,919,883	1,919,883
Total non-financial liabilities			13,152
Total liabilities			1,933,035

24 Financial assets and liabilities *(continued)*

24.1 Fair value information

The table below analyses financial instruments carried at fair value, by using valuation techniques.

The fair values of derivatives and certain financials investments have determined using the following hierarchy of valuation levels.

Fair values of financial instruments carried at fair value

	Valuation techniques		
	Quoted market price Level 1 RO'000	Using observable inputs Level 2 RO'000	Total RO'000
Recurring fair value measurements			
At 31 December 2015			
Assets			
Derivatives	**-**	**3,733**	**3,733**
Financial investments: available-for-sale	**88,110**	**544,483**	**632,593**
Liabilities			
Derivatives	**-**	**204**	**204**
At 31 December 2014			
Assets			
Derivatives	-	2,489	2,489
Financial investments: available-for-sale	62,375	602,699	665,074
Liabilities			
Derivatives	-	1,009	1,009

Fair values of financial instruments not carried at fair value

	Valuation techniques				
	Quoted market price Level 1 RO'000	Using observable inputs Level 2 RO'000	Financial instruments carried at cost RO'000	Total fair value RO'000	Carrying amount RO'000
Assets and liabilities					
At 31 December 2015					
Assets					
Cash and balances with central bank	-	**277,736**	**-**	**277,736**	**277,736**
Due from banks	-	**10,271**	**-**	**10,271**	**10,271**
Loans and advances to customers – net	-	**1,180,044**	**-**	**1,180,044**	**1,200,808**
Financial investments: available-for-sale	-	**-**	**327**	**327**	**327**
Other assets	-	**35,477**	**-**	**35,477**	**35,477**
Liabilities					
Due to banks	-	**36,211**	**-**	**36,211**	**36,211**
Deposit from customers	-	**1,791,995**	**-**	**1,791,995**	**1,802,338**
Other liabilities	-	**40,355**	**-**	**40,355**	**40,355**

24 Financial assets and liabilities *(continued)*

24.1 Fair value information *(continued)*

	Valuation techniques				
	Quoted market price Level 1	Using observable inputs Level 2	Financial instruments carried at cost	Total fair value	Carrying amount
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets and liabilities					
At 31 December 2014					
Assets					
Cash and balances with central bank	-	180,007	-	180,007	180,007
Due from banks	-	155,902	-	155,902	155,902
Loans and advances to customers - net	-	1,137,828	-	1,137,828	1,161,313
Financial investments: available-for-sale	-	-	1,077	1,077	1,077
Other assets	-	30,550	-	30,550	30,550
Liabilities					
Due to banks	-	25,731	-	25,731	29,215
Deposit from customers	-	1,853,494	-	1,853,494	1,852,339
Other liabilities	-	37,320	-	37,320	37,320

Loans and advances to customers

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous years when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made alongwith changes in interest rates in the case of fixed rate loans.

Financial investments and derivatives

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

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

Foreign exchange contracts are valued based on market prices. The market value adjustment of foreign exchange contracts are classified as value of other assets.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

25 Cash and cash equivalents

The reconciliation of the components of cash and cash equivalents with the equivalent items shown in the statement of financial position is shown below:

	2015	2014
	RO'000	RO'000
Statement of financial position items comprise:		
Cash and balances with central banks	277,736	180,007
Due from banks (note 10)	10,271	155,902
Due to banks (note 16)	(36,211)	(29,215)
	251,796	306,694
Adjustment for items maturing after three months from date of acquisition and restricted balances	-	(15,886)
	251,796	290,808
Cash and cash equivalents comprise:		
Cash and balances with central banks	277,736	164,121
Due from banks (note 10)	10,271	155,902
Due to banks (note 16)	(36,211)	(29,215)
	251,796	290,808

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

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

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

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 year is as follows:

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
As at 31 December 2015					
Loans and advances	-	-	-	29,596	29,596
Current, deposit and other accounts	-	10,608	77	17,869	28,554
Letters of credit and guarantees	-	60,185	-	10,200	70,385
Due from banks	-	4,896	-	-	4,896
Due to banks	-	21,856	-	-	21,856
For the year ended 31 December 2015					
Net interest income	-	76	-	519	595
Net fee income / (expenses)	-	(135)	-	345	210
Other income	-	-	9	-	9
Other operating expenses	(5,254)	(7,014)	(18)	(208)	(12,494)
Purchase of property and equipment	-	-	-	(2)	(2)

During the year 2015 there was a write off of RO6.9m from related party loans and advances.

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

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
As at 31 December 2014					
Loans and advances	-	-	-	18,890	18,890
Current, deposit and other accounts	-	6,729	19	13,347	20,095
Letters of credit and guarantees	-	33,061	-	10,625	43,686
Due from banks	664	27,146	-	-	27,810
Due to banks	5,579	3,742	-	-	9,321
For the year ended 31 December 2014					
Net interest income	-	88	-	247	335
Net fee income	-	111	1	244	356
Other operating expenses	(6,775)	(4,197)	(23)	(279)	(11,274)

Compensation of key management personnel

	2015	2014
	RO'000	RO'000
Wages, salaries and other short term benefits	**1,869**	2,228
Post-employment benefits	**143**	200
	2,012	2,428

27 Distribution by economic sector

The table below analyses the concentration of gross loans and advances by economic sector:

	2015	2014
	RO'000	RO'000
Personal and consumer loans	**466,752**	456,808
Corporate and commercial		
Import trade	**165,280**	162,422
Construction	**86,934**	82,496
Manufacturing	**218,935**	170,345
Wholesale and retail trade	**45,217**	39,678
Export trade	**-**	7,494
Electricity, gas, water, transportation and communication	**90,854**	87,472
Services	**148,316**	203,606
Mining and quarrying	**12,528**	19,304
Others	**49,248**	31,518
	817,312	804,335
Financial institutions	**-**	16
Total gross loans and advances	**1,284,064**	1,261,159
Provision for loan impairment - specific	**(28,380)**	(36,192)
Provision for loan impairment - general	**(16,435)**	(15,880)
Reserved interest	**(38,441)**	(47,774)
Net loans and advances	**1,200,808**	1,161,313
Non-performing loans - gross	**71,881**	92,573

Specific provision for loan impairment and reserved interest represent 93.0% (2014: 90.7%) of gross non-performing loans and advances.

27 Distribution by economic sector *(continued)*

The table below analyses the concentration of letters of credit and guarantees commitments by economic sector:

	2015	2014
	RO'000	RO'000
Personal and consumer	**7,891**	681
Import trade	**52,851**	66,458
Construction	**72,005**	59,099
Financial institutions	**155,178**	-
Manufacturing	**10,635**	16,505
Wholesale and retail trade	**12,831**	18,207
Electricity, gas, water, transportation and communication	**41,764**	11,962
Services	**79,656**	207,398
Mining and quarrying	**759**	1,390
Others	**3,573**	55,912
	437,143	437,612

28 Operating segment

The factors used to identify the Bank's reporting segments are discussed in the 'Summary of significant accounting policies' in note 2.18.

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.

28 Operating segment *(continued)*

	31 December 2015				
	CMB	**RBWM**	**GB&M**	**Unallocated**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Net interest income					
- External	**17,219**	**29,365**	**2,580**	**-**	**49,164**
- Internal	**(1,058)**	**1,414**	**(268)**	**(88)**	**-**
	16,161	**30,779**	**2,312**	**(88)**	**49,164**
Net fee income	**6,594**	**4,590**	**1,327**	**-**	**12,511**
Net trading income	**2,346**	**1,311**	**3,256**	**90**	**7,003**
Other operating income	**2,034**	**2,432**	**151**	**240**	**4,857**
Total operating income	**27,135**	**39,112**	**7,046**	**242**	**73,535**
Loan impairment (charges) and other credit risk provisions - net of recoveries	**265**	**(3,699)**	**-**	**-**	**(3,434)**
Net operating income	**27,400**	**35,413**	**7,046**	**242**	**70,101**
Total operating expenses	**(17,244)**	**(34,992)**	**(1,863)**	**(641)**	**(54,740)**
Profit / (loss) before tax	**10,156**	**421**	**5,183**	**(399)**	**15,361**
Reportable segment assets	**789,720**	**456,358**	**873,774**	**80,090**	**2,199,942**
Reportable segment liabilities	**1,091,931**	**737,980**	**21,752**	**39,763**	**1,891,426**

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

	31 December 2014				
	CMB	RBWM	GB&M	Unallocated	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	16,501	29,886	2,472	4	48,863
- Internal	(236)	103	162	(29)	-
	16,265	29,989	2,634	(25)	48,863
Net fees and commission	6,373	4,524	1,665	-	12,562
Net trading income	2,226	1,230	3,678	92	7,226
Other operating income	413	492	28	1,410	2,343
Total operating income	25,277	36,235	8,005	1,477	70,994
Loan impairment (charges) and other credit risk provisions - net of recoveries	(2,187)	(730)	-	-	(2,917)
Net operating income	23,090	35,505	8,005	1,477	68,077
Total operating expenses	(15,437)	(36,362)	(1,656)	(1,828)	(55,283)
Profit / (loss) before tax	7,653	(857)	6,349	(351)	12,794
Reportable segment assets	748,254	457,655	927,959	109,044	2,242,912
Reportable segment liabilities	1,153,364	725,149	29,168	25,354	1,933,035

29 Dividend per share

The Board of Directors at the forthcoming Ordinary Annual General meeting will propose a cash dividend of RO0.0039 per share of nominal value of RO0.100 each amounting to RO7.8m for the year 2015 (2014: cash dividend of RO0.0055 per share of nominal value of RO0.100 each amounting to RO11.0m). These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31 December 2016.

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30 Risk management

All of the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are credit risk (including cross-border country risk), market risk, operational risks in various forms, liquidity risk, reputational risk, legal risk and sustainability (environmental and social) risks. Market risk includes foreign exchange, interest rate and equity price risks. The management of these various risk categories is discussed below.

The risk profiles of the Bank change constantly under the influence of a wide range of factors. The risk management framework established by the Bank fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interdependencies.

This section provides details of the Bank's exposure to risk and describes the methods used by management to manage risk.

30.1 Risk governance and ownership

A well-established risk governance and ownership structure ensures oversight of and accountability for the effective management of risk. The Board approves the Bank's risk appetite framework, plans and performance targets, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

The Board's Audit and Risk Committees are responsible for advising the Board on material risk matters and providing non-executive oversight of risk.

Under authority delegated by the Board, the separately convene monthly Risk Management Meeting ('RMM') oversees risk management policy and the implementation of risk appetite and controls. The RMM together with the Asset and Liability Committee (ALCO) monitors all categories of risk, receives reports on actual performance and emerging issues, determines action to be taken and reviews the efficacy of the Bank's risk management framework.

In its oversight and stewardship of risk management, RMM is supported by a dedicated Risk function headed by the Chief Risk Officer (CRO), who is the chairperson of RMM and reports to the Board Risk Committee and to the regional HSBC CRO.

Risk has functional responsibility for the principal financial risk types, namely retail and wholesale credit, market, operational, security and fraud risks. For these it establishes policy, exercises bank-wide oversight and provides reporting and analysis of portfolio composition.

30.2 Risk appetite

The Bank's approach to risk is encapsulated within our Risk Appetite Statement (RAS) which is approved by the Board.

The Risk Appetite Statement defines the qualitative and quantitative expressions of the risks which the Bank is prepared to embrace in alignment with its strategy and business plans. Quantitative metrics are assigned to eight key categories: earnings, capital, liquidity and funding, impairment, provisions and expected losses, risk categories and diversification, financial crime, compliance and balance sheet. Measurement against the metrics serves to:

- guide underlying business activity, ensuring it is aligned to the Risk Appetite Statement;
- enable the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identify business decisions needed to mitigate risk.

30.3 Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending and trade finance, but also from off-balance sheet products such as guarantees and from the Bank's holdings of debt and other securities. Credit risk generates the largest regulatory capital requirement of the risks we incur.

30 Risk management *(continued)*

30.3 Credit risk *(continued)*

Credit risk management

The Wholesale (corporate) and Retail Risk functions report to the CRO. Their responsibilities include:

- Formulating and recording detailed credit policies and procedures, consistent with local regulations and HSBC Group policy.
- Issuing policy guidelines on appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain high-risk sectors.
- Undertaking independent reviews and objective assessment of risk. Wholesale Risk assesses all commercial non-bank credit facilities and exposures prior to the facilities being committed to customers or transactions being undertaken. Above certain designated limits exposures require Board approval and HSBC Group concurrence.
- Monitoring the performance and management of portfolios.
- Maintaining policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the Bank's capital base and remain within regulatory and internal limits.
- Maintaining the governance and operation of the Bank's risk rating framework and systems, to classify exposures taking into account regulatory requirements.
- Reporting on retail portfolio performance, high risk portfolios, risk concentrations, country limits and cross-border exposures, large impaired accounts, impairment allowances and stress testing results and recommendations to the Risk Management Meeting, the Audit and Risk Committees and the Board of Directors.
- Acting on behalf of the Bank as the primary interface, for credit-related issues, with external parties.

The Bank implements credit policies, procedures and lending guidelines that meet local requirements and conform to the HSBC Group standards.

Credit quality

The Bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly. Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

Special attention is paid to problem exposures in order to accelerate remedial action. The Bank uses a specialist unit to manage non-performing accounts and provide customers with support in order to help them avoid default wherever possible.

Periodic risk-based audits of the Bank's credit processes and portfolios are undertaken by an independent function.

Impairment assessment

It is the Bank's policy to create allowances for impaired loans and advances promptly and consistently.

Impairment allowances may be assessed and created either for individually significant accounts or on a collective basis for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans that are not considered individually significant.

Impairment allowances are taken in conformity with regulatory requirements and HSBC Group policy.

30 Risk management *(continued)*

30.3 Credit risk *(continued)*

Write-off of loans and advances:

Loans are normally written off, either partially or in full, when there is no realistic prospect of further recovery. For secured loans and advances, write-off generally occurs after receipt of any proceeds from the realisation of security.

Unsecured personal facilities, including credit cards, are generally written off at the end of the month in which the account becomes 180 days contractually delinquent.

In the event of bankruptcy or analogous proceedings, write off may occur earlier than at the periods stated above. Collections procedures may continue after write off.

Cross-border exposures

Cross border exposures are subject to limits which are centrally managed by the HSBC Group and are subject to HSBC Group approval concurrence.

Maximum exposure to credit risk

The Bank's exposure to credit risk is spread across a broad range of asset classes, including derivatives, trading assets, loans and advances to customers, loans and advances to banks, and financial investments. For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk, it is generally the full amount of the committed facilities.

Collateral and other credit enhancements

Although collateral can be an important mitigate of credit risk, it is the Bank's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. However, for other lending decisions a charge over collateral is obtained and is considered in determining the credit decision and pricing. In the event of default the Bank may utilise the collateral as a source of repayment.

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2015	2014
	RO'000	RO'000
Property	**110,521**	101,928
Equity	**1,511**	2,877
Fixed deposits	**28,233**	32,348
Vehicle	**6,980**	7,800
Guarantees	**142,350**	512
Total	**289,595**	145,465

The table below presents an analysis of financial investments as at 31 December 2015:

	2015	2014
	RO'000	RO'000
Unrated equity investments	**6,539**	21,839
Sovereign securities	**626,381**	644,312
Total	**632,920**	666,151

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30 Risk management *(continued)*

30.3 Credit risk *(continued)*

The table below presents an analysis of due from banks and balances with Central banks as at 31 December 2015, based on Fitch and Standard & Poor's ratings or equivalent.

	2015 RO'000	2014 RO'000
Sovereign	233,231	131,936
A	695	48,311
A-	-	19,250
A+	584	16,207
AA-	8,992	62,509
BBB+	-	9,625
Total	243,502	287,838

Concentration of exposure

Exposure to a person, company or group (the Single Borrower Lending Limit) is restricted to maximum 15% of the Bank's regulatory net worth or 10% of the Bank's regulatory net worth for related parties, subject to any regulatory dispensations. In addition, the total of all facilities granted to related parties must not exceed 35% of the Bank's net worth.

	Gross loans and advances		Due from banks		Financial investments	
	2015 RO'000	2014 RO'000	2015 RO'000	2014 RO'000	2015 RO'000	2014 RO'000
Concentration by sector:						
Sovereign	-	18,086	-	-	626,381	644,312
Corporate	817,312	786,265	-	-	-	-
Banks	-	-	10,271	155,902	-	-
Retail	466,752	456,808	-	-	-	-
Equity	-	-	-	-	6,539	21,839
Carrying amount	1,284,064	1,261,159	10,271	155,902	632,920	666,151

Exposure to credit risk

	Net loans and advances		Due from banks		Financial investments	
	2015 RO'000	2014 RO'000	2015 RO'000	2014 RO'000	2015 RO'000	2014 RO'000
Individually impaired	71,881	92,573	-	-	-	-
Allowance for impairment	(66,821)	(83,966)	-	-	-	-
Carrying amount	5,060	8,607	-	-	-	-
Past due and not impaired						
1-30 days	14,428	7,256	-	-	-	-
31-60 days	2,706	2,381	-	-	-	-
61-89 days	1,837	1,468	-	-	-	-
Neither past due nor impaired	1,193,212	1,157,481	10,271	155,902	632,920	666,151
Provision for loan impairment – general	(16,435)	(15,880)	-	-	-	-
Carrying amount	1,200,808	1,161,313	10,271	155,902	632,920	666,151

30 Risk management *(continued)*

30.3 Credit risk *(continued)*

Credit quality of financial instruments

All loans and advances in the Bank are classified according to asset quality. Standard accounts include all facilities which demonstrate good financial condition, risk factors and capacity to pay in line with the original terms of sanction.

Accounts categorised as 'Specially Mentioned' carry no impairment provision but are below standard and require monitoring by reason of one or more adverse factors. This may for example relate to poor profitability, low tangible net worth or deteriorating business prognosis. The Bank complies with all regulatory requirements as regards credit quality classification.

The Bank has adopted the HSBC Group methodologies for credit assessment. These include the use of techniques and systems for assessing credit risks, rating and pricing them and for calculating collective impairment charges on retail and wholesale portfolios. For example and as regards wholesale credit, the HSBC methodology provides a granular 22 grade scale of an obligor's Probability of Default (PD).

30.4 Liquidity and funding management

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

The objective of the Bank's liquidity and funding management is to allow it to withstand severe liquidity stresses. It is designed to be adaptable to changing business models and regulations. The Bank employs a number of measures to monitor liquidity risk.

Policies and procedures

The management of liquidity and funding is implemented in accordance with the limits and practices set by the Board and HSBC Group and in line with the guidelines provided by the CBO. The Global Markets unit is responsible for liquidity management under the guidance and supervision of ALCO.

The Bank's liquidity and management process includes:

- Projecting cash flows by major currency and considering maintenance of liquid assets in relation thereto;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements;
- Monitoring depositor concentration with particular focus on stable retail deposits complemented by wholesale and institutional deposits.

Primary sources of funding

Current accounts, savings deposits and term deposits form a significant part of the Bank's funding. The Bank places considerable importance on the stability of these deposits.

The Bank would meet unexpected net cash outflows by selling securities and accessing additional funding sources such as inter-bank or asset-backed markets.

Core deposits

A key assumption of the Bank's internal framework is the categorisation of customer deposits into core and non-core. This characterisation takes into account the inherent liquidity risk categorisation of the entity originating the deposit, the nature of the customer and the size and pricing of the deposit. No deposit is considered to be core in its entirety unless it is contractually collateralising a loan.

30 Risk management *(continued)*

30.4 Liquidity and funding management *(continued)*

Core deposits *(continued)*

Advances to core funding ratio

Core customer deposits are an important source of funds to finance lending to customers, and discourage reliance on short-term professional funding. This is achieved by placing limits which restrict ability to increase loans and advances to customers without corresponding growth in core customer deposits or long term debt funding. This measure is referred to as the 'Advances to Core Funding' ratio. This ratio describes current loans and advances to customers as a percentage of the total of core customer deposit and term funding with a remaining term to maturity in excess of one year.

The liquidity ratios of the Bank as per the methodology followed for HSBC globally as at 31 December were as follows:

	2015 RO	2014 RO
Operational Cash Flow Projection (OCP)	**154.4m**	61m
Advances to Core Deposit Ratio (ACF Ratio)	**112.63%**	113.40%

OCP is a measure of liquidity and for which the Bank is required to be positive for cumulative cash flows up to three months.

30.5 Market risk management

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Bank's status as a premier provider of financial products and services.

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity and commodity prices will reduce the Bank's income or the value of its portfolios.

The Bank is required to assess the market risks which arise on each product in its business and to transfer these risks to its Global Markets unit for management. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to professionally manage such risks.

Derivative financial instruments

Derivative financial instruments used by the Bank include swaps, forwards and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, or other market forces. Derivatives are individually negotiated over-the-counter contracts (referred to as OTC-products). A description of the main types of derivative instruments used by the Bank is set out below.

Swaps

Swaps are over-the-counter agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Bank are interest rate swaps. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Bank is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates of the contract and the Bank covers the market risk by entering into offsetting transactions.

Forwards

Forward contracts are commitments to either purchase or sell a designated financial instrument, or currency, at a specified future date for a specified price and may be settled in cash or another financial asset. Forwards are individually-traded over-the-counter contracts. Forward contracts result in credit

Notes to the Financial Statements
As of 31 December 2015

30 Risk management *(continued)*

30.5 Market risk management *(continued)*

exposure to the counterparty. Forward contracts result in exposure to market risk based on changes in market prices relative to contracted amounts. The market risk on such transaction is managed within pre- approved limits.

Value at risk ('VAR')

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Bank, 99 per cent). The group calculates VAR daily. The VAR model used by the Bank is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates.

Although a useful guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding year assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding year may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures. The VAR for Global Markets was as follows:

	2015	**Average**	**Maximum**	**Minimum**	2014	Average	Maximum	Minimum
	RO'000	**RO'000**	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000
Total VAR	**67**	**252**	**587**	**67**	614	458	666	203
Trading VAR	**4**	**2**	**12**	**-**	-	2	6	-

Trading

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VAR and present value of a basis point, together with stress and sensitivity testing and concentration limits.

Other controls include restricting individual operations to trading within a list of pre-approved permissible instruments, and enforcing rigorous new product approval procedures.

Non-trading

The principal objective of market risk management of non-trading portfolios is to optimise net interest income. Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as result of interest rate changes. Analysis of this risk is complicated by having to make behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts, in order to manage this risk optimally. Market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the auspices of the ALCO. ALCO regularly reviews that these portfolios are managed within pre-approved interest risk limits.

30 Risk management *(continued)*

30.5 Market risk management *(continued)*

Currency risk

As a risk control mechanism limits are put in place for foreign exchange open positions. Positions are managed and monitored on an ongoing basis by the Treasury. Periodical reporting is made to ALCO who deliberate on the issue and give necessary guidance to Treasury.

The Bank had the following significant net exposures denominated in foreign currencies as at 31 December:

Currency	Overall exposure in RO' 000	
	2015	2014
US Dollars	**4,228**	2,171
Pound Sterling	**4**	9
Euro	**37**	6
Japanese Yen	**1**	-
UAE Dirhams	**12**	50
Indian Rupee	**3**	1
Other currencies	**196**	320
Total exposure	**4,481**	2,557

30.6 Legal risk

The Bank is required to implement procedures to manage legal risk that conform to HSBC Group standards. Legal risk falls within the definition of operational risk and includes contractual risk, dispute risk, legislative risk and non-contractual rights risk.

- Contractual risk is the risk that the rights and/or obligations of the Bank within a contractual relationship are defective.
- Dispute risk is the risk that the Bank is subject to when it is involved in or managing a potential or actual dispute.
- Legislative risk is the risk that the Bank fails to adhere to the laws of the jurisdictions in which it operates.

Non-contractual rights risk is the risk that the Bank's assets are not properly owned or are infringed by others, or the Bank infringes another party's rights.

The Bank has a legal function to assist management in controlling legal risk. The function provides legal advice and support in managing claims against the Bank, as well as in respect of non-routine debt recoveries or other litigation against third parties.

The legal department must be immediately advised of any action by a regulatory authority, where the proceedings are criminal, or where the claim might materially affect the Bank's reputation.

30.7 Operational risk management

The Bank defines operational risk as "the risk to achieving your strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events". Losses arising through fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

A formal governance structure provides oversight over the management of operational risk. The Risk Management Meeting convenes monthly to discuss operational risk issues and the effectiveness of internal controls.

In order to manage operational risks, the Bank has an Operational Risk Management Framework (ORMF), which includes adoption of the Three Lines of Defense risk governance framework:

1) The First Line of Defense owns the operational risks. They are responsible for identifying, recording, reporting and managing risks, and ensuring that the right controls and assessments are in place to mitigate these risks. Most of the Bank's people are in The First Line of Defense, including Risk Owners, Control Owners and Business Risk & Control Managers (BRCMs).

2) The Second Line of Defense sets policy and guidelines for managing operational

30 Risk management *(continued)*

30.7 Operational risk management *(continued)*

risk, and provides advice and guidance on effective risk management. The Second Line are risk management specialists comprising Risk Stewards and the Operational Risk Function.

3) The Third Line of Defense is Internal Audit who independently ensure that the Bank is managing operational risk effectively.

A centralised database is used to record the results of the operational risk management process. Operational risk and control assessments, and losses, are input and maintained by the business units. Management is responsible for implementing the required standards of operational risk control throughout their operations and where deficiencies are evident, rectifying them within a reasonable timeframe.

The Bank maintains and tests contingency facilities to support operations in the event of unforeseen disasters.

30.8 Compliance risk management

Compliance risk is the risk that the Bank fails to observe the relevant laws and regulations imposed by the various governing authorities and regulators where the Bank operates. Failure to comply with regulations may lead not only to penalties and financial losses but is also detrimental to the reputation and long term prosperity of any organisation.

The Bank's management is primarily responsible for managing the compliance risks that the Bank is exposed to and is supported by the Compliance department in discharging this duty within the various business units. The compliance function in the Bank is set up in accordance with the CBO guidance on compliance function for banks issued in 2006 and facilitates the management of compliance risk by:

- Setting policies and standards to cover compliance issues.
- Advising management, the business and other parts of the Bank, the impact of applicable regulations on their business, activity or behavior.
- Providing, an independent reporting mechanism for all executives.
- Fostering an open and transparent relationship with the regulators in Oman.
- Managing the relationship with Bank's regulators including coordination of all contact, coordination of all regulatory submissions, monitoring and control of regulator's access to HBON's premises, staff and materials.
- Report immediately to the Risk Committee of the Board and the Regional head of Financial Crime Compliance ('FCC') and Regulatory compliance ('RC') and relevant senior management on all material or significant breaches of which they are aware as soon as practicable and issue half-yearly certificates, outlining any breaches, to the Central Bank and to the HSBC Group through the Regional Compliance.

30.9 Capital management

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. Banks are required to maintain minimum capital adequacy ratio of 12.625% including capital conservation buffer for 2015 (2014: 12.625%) in accordance with CBO stipulated guidelines.

Notes to the Financial Statements (continued)
As of 31 December 2015

30 Risk management *(continued)*

30.9 Capital management *(continued)*

The Bank's regulatory capital position at 31 December was as follows:

	2015	2014
	RO'000	RO'000
Common Equity Tier 1 capital ('CET 1') / Tier 1 capital		
Ordinary share capital	**200,031**	200,031
Legal, statutory and foreign exchange reserves	**36,277**	35,933
Retained earnings	**63,367**	58,292
Regulatory adjustments to CET1	**(9,745)**	(13,132)
CET 1/Tier 1 capital	**289,930**	281,124
Additional Tier 1 capital (AT1)	**-**	-
Total Tier 1 capital (T1 = CET1+AT1)	**289,930**	281,124
Tier 2 capital (T2)		
Fair value reserve for available-for-sale equity securities	**247**	1,985
Provision for loan impairment – general	**16,435**	15,880
Total	**16,682**	17,865
Total regulatory capital	**306,612**	298,989
Risk-weighted assets		
Banking book	**1,421,141**	1,506,007
Operational risk	**149,947**	126,319
Market risk	**7,730**	6,702
Total risk-weighted assets	**1,578,818**	1,639,028
Capital ratios		
CET 1 / Tier 1 capital ratio	**18.36%**	17.15%
Total capital ratio	**19.42%**	18.24%

31 Liquidity coverage ratio (LCR)

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

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

		Total unweighted value (average*) RO'000	Total weighted value (average*) RO'000
High quality liquid assets			
1	Total high quality liquid assets (HQLA)	-	608,791
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	736,877	56,546
3	- Stable deposits	342,823	17,141
4	- Less stable deposits	394,054	39,405
5	Unsecured wholesale funding, of which:	1,130,813	471,737
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	- Non-operational deposits (all counterparties)	1,130,813	471,737
8	- Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	178,529	17,633
11	- Outflows related to derivative exposures and other collateral requirements	-	-
12	- Outflows related to loss of funding on debt products	-	-
13	- Credit and liquidity facilities	178,529	17,633
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	1,081,094	54,055
16	**Total cash outflows (2+5+10+15)**	-	599,971
Cash inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	351,281	225,006
19	Other cash inflows	-	-
20	**Total cash inflows (17+18+19)**	351,281	225,006
			Total Adjusted Value
21	**Total HQLA**		608,791
22	**Total net cash outflows (16-20)**		374,965
23	**Liquidity coverage ratio (21/22)**		162%

*simple average of monthly observations over the last three months (October –December 2015)

Comparative information for LCR is not available as the CBO guidelines for the same was effective from the year 2015 and onwards

32 Corresponding figures

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