HSBC Bank Oman S.A.O.G

Annual Report and Accounts 2013

HSBC

His Majesty Sultan Qaboos bin Said

Contents

Members of the board

Aimen Ahmed Sultan Al Hosni
Director

David Kotheimer
Director

Waleed Omar Al Zawawi
Deputy Chairman
and Director

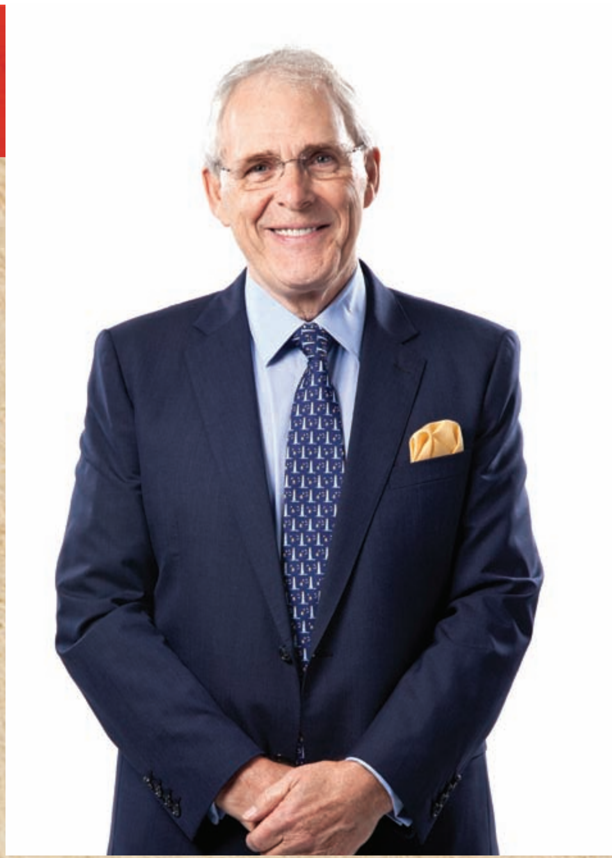
David Gordon Eldon
Chairman
and Director

Dr. Juma Ali Juma Al Juma
Senior Independent Director

Francesca McDonagh
Director

Abdulfattah Sharaf
Director

Board of Director's Report



Dear Shareholders,

It is with great pleasure that we present you with the 2013 full year report for 'HSBC Bank Oman S.A.O.G.' ("HBON"). This was our first full year as a newly-integrated bank, following the merger of HSBC Bank Middle East Ltd.'s ("HSBC Oman") operations in the Sultanate with Oman International Bank S.A.O.G. ("OIB") in June 2012. This period has seen progress and innovation in our products and services, essential for the continued growth of the Bank and we have worked diligently to raise the level of operations in line with global HSBC standards. Through our community engagement activities, intensive staff training programmes and branch enhancement projects, we have reinforced our commitment to Oman and its people, building on the significant progress achieved in 2012. It is testament to the hard work and dedication of all our employees coupled with the support of our valued customers that a period of immense change has been completed.

Economic overview

The Oman economy experienced a healthy economic performance in 2013, recording actual GDP growth of 5%. Inflation fell to approximately 1.5%, while non-oil revenue accounted for 17% of the Sultanate's total revenue. In 2014, Oman is expected to benefit from further investment commitments, with a projected public expenditure of RO13.5bn, an increase of 5% compared to 2013, to fund new and ongoing infrastructure projects. The government forecasts 5% growth in Oman's overall economy in 2014, the same rate as projected in 2013. Investment constitutes 24% of government expenditure while education and health will receive 18.6% and 9% respectively.

History

HBON was created in June 2012 when OIB and HSBC Oman merged. This move represented HSBC's first merger in the Middle East and North Africa region for many years and provided the HSBC Group with a rare opportunity to increase its scale and reinforce its long standing commitment to Oman. The new organisation is a much stronger financial institution with a considerably expanded domestic and international network.

Following the merger, HBON was the third largest bank by total assets in the Sultanate, and the second largest bank by branch network. HBON is now fully connected to one of the world's largest financial services organisations, with an international network covering more than 80 countries and territories globally.

Merger and integration

Under International Financial Reporting Standard 3 ('IFRS 3'): 'Business Combinations', the operations of HSBC Oman and OIB merged on 3 June 2012 through a transaction accounted for as a "reverse acquisition". HSBC Holdings Plc acquired 51% of the combined entity through its indirect wholly owned subsidiary HSBC Bank Middle East Limited, following the issuance by OIB of 1,020,159,523 shares in favour of HSBC Bank Middle East Limited. As a result, the financial statements of HBON are shown as a continuation of those of HSBC Oman, adjusted to reflect the legal capital and statutory reserves of OIB.

Performance summary

As per International Financial Reporting Standards 3 ('IFRS 3') 'Business Combinations' requirements, the Profit and Loss ('P&L') for HBON represents twelve months of HBON's results in 2013 against a combination of twelve months of HSBC Oman and seven months (June to December) of Oman International Bank S.A.O.G for the previous year from the date of the merger.

Our 2013 performance shows an 87.9% increase in net profit for the year ended 31 December 2013 of RO10.9m compared to RO5.8m for the year ended 31 December 2012. Net interest income ('NII') increased by 20.0% for the period ended 31 December 2013 to reach RO48.1m, up from RO40.1m for the year ended 31 December 2012. Net fee and other income increased by 17.4% to RO13.5m compared to RO11.5m in 2012. Net trading income stood at RO7.1m, representing a 21.1% decrease in comparison to RO9.0m for the year ended 31 December 2012.

A net recovery of RO2.2m has been reported within Loan Impairment Charges for the period against a net charge of RO4.6m in the same period last year. This is due to recoveries from corporate clients and a general provision release as a result of a reduction in corporate loans and advances in 2013.

As expected, operating expenses rose by 18.7% to RO57.8m reflecting the running costs of the merged bank.

Loans and advances net of provisions and reserved interest as at 31 December 2013 decreased by 17.9% to RO980.5m. Customer deposits decreased by 3.2% to RO1,792.7m compared to RO1,851.6m as at 31 December 2012. This reflects the repositioning of the bank's balance sheet for future growth.

HBON's Capital Adequacy ratio increased to 20.2% for the year ended 31 December 2013 compared to 16.0% for the year ended 31 December 2012, representing a strong capital base.

The Board of Directors proposes a total cash dividend of RO7.6m, with a dividend payout ratio of 70.0%.

Enhancing our customers' experience

HBON's priority since its inception has been to provide customers with a seamless, comprehensive and unique service. To achieve this, HBON has continued to invest in enhancing its propositions to improve customer experience at all touch points. The management team has ensured that operational, strategic and cultural elements of both organisations have been fully integrated with no major interruption in service to continue meeting customer expectations.

We have made good progress by continuing to refurbish our branch network and installing new ATMs in strategic areas; over 60 branches were revamped across the Sultanate in 2013. To enhance and simplify customers' banking experience, we built a dedicated Customer Collection Point (CCP) adjacent to HBON's headquarters that enables customers with accounts in Muscat to collect their credit/debit cards, cheque books and telephone banking pins at their convenience.

Advances in digital banking

In 2013, we focused on developing our digital proposition by improving HBON's Internet Banking and Mobile Banking channels. Having been the first bank in the Sultanate to provide Internet Banking, HBON became one of the first to offer customers an additional layer of online protection and added control by introducing Secure Key technology, better known as the HSBC Secure Key. We have also upgraded the HSBC Mobile Banking application to offer simplified navigation and allow customers to make domestic and international money transfers to third party accounts. These advances reinforce HBON's commitment to bringing the best of HSBC's global capabilities and technical expertise to our customers.

Re-launch of the 'Mandoos' savings scheme

HBON aims to build long-term customer relationships by providing a consistent and superior customer experience. In support of this, HBON re-introduced the Mandoos Savings account that encourages saving and gives customers the opportunity to win cash prizes. Mandoos was the first of its kind in Oman when it was introduced more than 25 years ago.

Enhancing our footprint

As part of HBON's on-going review of its branch network to maximise operational efficiency and ensure all branches are strategically placed to best serve our customers, we opened two new branches in A'Sharqiyah Governate, in the Wilayats of Ibra and Wadi Tayeen. We also took steps to rationalise our network, particularly where branches were physically adjacent to each other in Qurum, Ruwi, Sohar and Thamrait Air Base. New ATMs were installed in high footfall locations.

We continue to work closely with the regulators in Pakistan and India to implement the decision taken by the former OIB Board of Directors and approved by the OIB shareholders to merge or dispose its branches and business in Pakistan and India. With the agreement of the State Bank of Pakistan, HBON closed two former OIB branches in Pakistan and continues to operate one branch in Karachi, and two branches in India.

Leveraging global expertise with local knowledge

In support of our ongoing commitment to the Sultanate of Oman and demonstrating our ability to combine global strengths with local expertise, HBON was appointed as an issue manager in the RO52 million IPO for SembCorp Salalah Power and Water. The public share issue represented the largest offering in the Sultanate in 2013 as well as one of the largest transactions in the Middle East in recent years, which was oversubscribed 8.3 times.

HSBC also acted as an advisor for Oman Oil Company's acquisition of OXEA, one of the largest global manufacturers of Oxo chemicals based in Germany. The merger and acquisition expertise of the HSBC group was supported locally to facilitate the transaction at every stage.

Investing in our people

We remain committed to attracting and developing Omani talent and supporting the nationalisation agenda. Building on this, we appointed three new senior executives in key strategic business areas, who bring extensive local and international experience to the Bank. In addition, HBON introduced a two-year graduate programme aimed at fostering leadership development and personal growth and providing more opportunities in the banking sector for emerging Omani talent.

We continue to provide a full range of international training and development opportunities: more than 6,500 classroom and e-learning training days were delivered in 2013 to over 1,100 employees, a 60% increase from 2012.

Contributing to the community

At HBON, we believe strongly in the importance of playing a positive role in the economy and society. Our Corporate Sustainability programme involves a number of initiatives, with at least 75% of our community investment activity supporting educational and environmental causes.

During 2013, we collaborated with the Oman Chamber of Commerce and Industry (OCCI) for the second consecutive year to support the education of Omani high school graduates from underprivileged families through the 'Al Najah Programme'; launched the third year of the 'Kids Read' education programme in conjunction with the Ministry of Education and the British Council; drove a national Earth Hour campaign to raise climate impact awareness in communities and encourage support for change; and distributed 1,200 food hampers to underprivileged families across the Sultanate. We also concluded our four-year partnership with the Environment Society of Oman to support research into sustainable frankincense farming practices in the Governorate of Dhofar.

Conclusion

In 2014, we are committed to improving our customers' experience and connecting them to more opportunities, growing our business profitably, investing in our people and systems, and ensuring that we operate to the highest of global standards to achieve our aspiration of becoming the leading bank in Oman.

In closing, and on behalf of the Board of Directors, I would like to extend my gratitude and appreciation to all of our valued customers, staff and management for their loyalty, dedication and steadfast commitment, and to the Central Bank of Oman and the Capital Market Authority for their continued support and guidance. On behalf of the Board, I would also like to express our deepest gratitude to His Majesty Sultan Qaboos bin Said for his visionary leadership and the peace, stability, and growth that his reign has brought us.

David Eldon

David Gordon Eldon

Chairman

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Report to the Shareholders of HSBC Bank Oman SAOG ("the Bank") of Factual Findings in connection with the Corporate Governance Report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003, as amended, with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002, and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007, as amended. The Report is set out on pages 8 to 19.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Bank's application of the provisions of the Code 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, we do not express any assurance on the Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

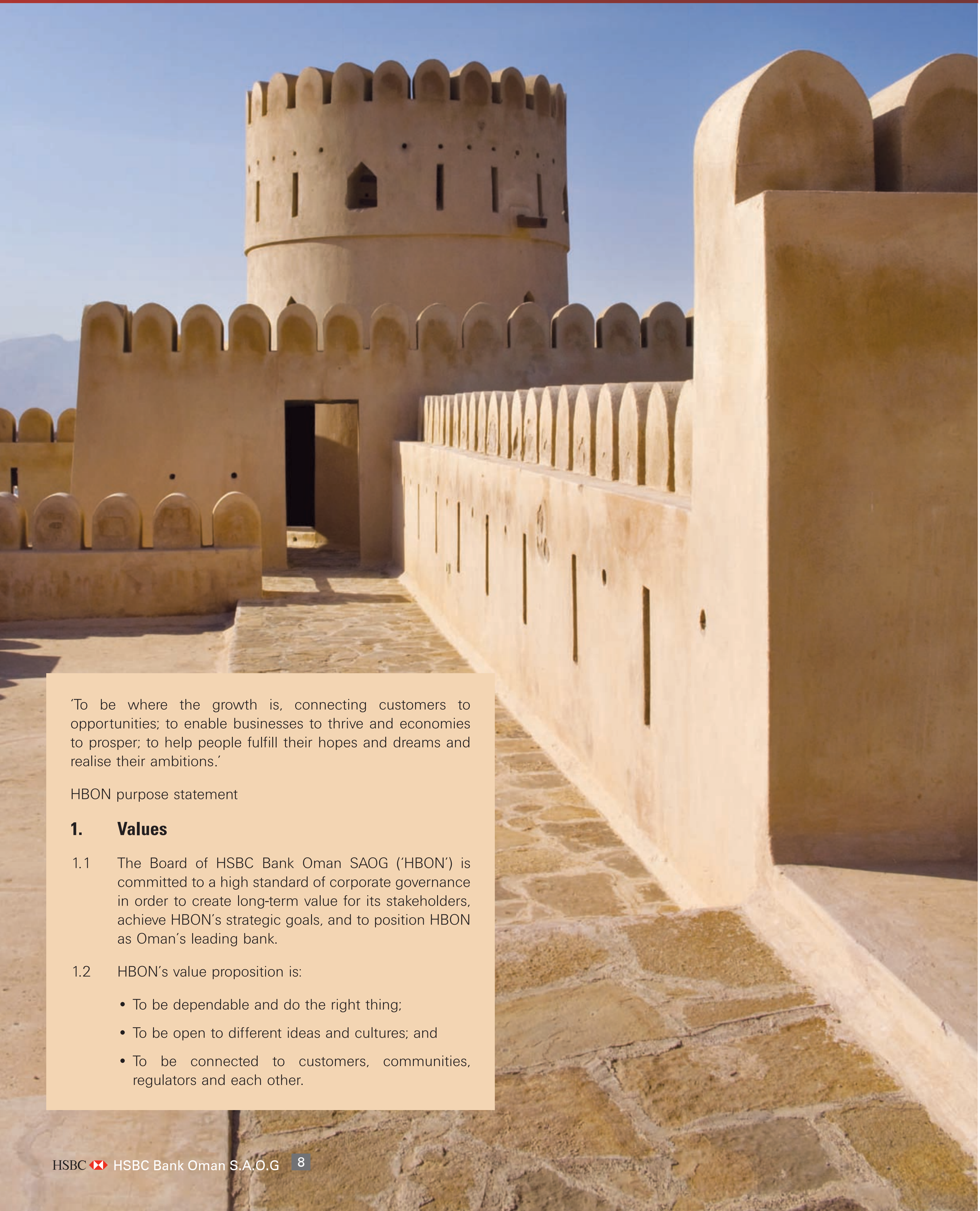
This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose; and we accept no responsibility to any third party. This report relates only to the Report included in the Bank's annual report for the year ended 31 December 2013 and does not extend to the financial statements or any other reports of HSBC Bank Oman SAOG, taken as a whole.

3 March 2014

Khalid Masud Ansari

C.R. No. 1/30936/6

Corporate Governance Report
For the Annual Report 2013



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

HBON purpose statement

1. Values

1.1 The Board of HSBC Bank Oman SAOG ('HBON') is committed to a high standard 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 ('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 comprising of a majority of non-executive directors of whom a third are considered independent[1].

3.2 The present Board was elected on 31 May 2012 for a period of three years. The next Board election will be in 2015, 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. 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 Annual General Meeting with Capital Market Authority ('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, 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:

1. At the Board meeting held on 10 October 2013, the Board approved the appointment of Mr David Gordon Eldon as a Director of HBON by way of co-option until the next HBON AGM and appointed him Chairman of the Board with effect from the beginning of that meeting. At the time of his appointment the definition of 'independent director' had been changed and Mr Eldon was a non-independent director. However, the new definition has been suspended by the CMA until further notice and under the current definition he is an independent director.

- 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. At the Board meeting held on 10 October 2013, the Board approved the appointment of Mr David Gordon Eldon as a Director of HBON by way of co-option until the next HBON AGM and appointed him Chairman of the Board with effect from the beginning of that meeting. At the same meeting, the Board accepted the resignation of Mr Simon Nigel Cooper as Director (with effect from the close of that meeting) and as Chairman of the Board.

Name & Category	**Biography**
Directors in office	
David Gordon Eldon Chairman & independent non-executive director Qualifications: Honorary Doctor of Business Administration from University of Hong Kong Justice of the Peace Fellow of the Chartered Institute of Bankers (FCIB).	Various banking roles from 1964 until 1990 in UK, Middle East and Asia. In 1990 General Manager of the HSBC Group, 1992 General Manager in The Hongkong and Shanghai Banking Corporation's International department, Executive Director in 1994, Chief Executive Officer in 1996 and Chairman in 1999. In 1996 Chairman of Hang Seng Bank, a member of the HSBC Group, and a director of HSBC Holdings plc on 1 January 1999. He retired from the Group in May 2005. Since 2011, Director and Non-Executive Chairman of HSBC Bank Middle East Limited and Chairman HSBC CMB Global Risk Committee. Senior Adviser, PricewaterhouseCoopers Limited, Senior Independent Non-Executive Director of Singapore listed Noble Group Limited, a Member of the Government of Dubai's Dubai International Financial Centre Higher Board. Until December 2012, Consultant to the Office of the President, South Korea. Past Chairman of the Hong Kong General Chamber of Commerce, Founding Member and past Chairman of the Seoul International Business Advisory Council. Chairman of the Advisory Board of Asiya Investments; 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 the 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

Name & Category	Biography
Directors in office	
Waleed Omar Al Zawawi Deputy Chairman & independent non-executive director Qualifications: Masters from Kings College, UK	Director of Oman International Bank SAOG since 1996 with over 28 years of corporate experience.
Dr. Juma Ali Juma Al Juma Independent senior non-executive director Qualifications: 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. Currently Chairman of Oman Airports Maintenance Company SAOC
Aimen Ahmed Sultan Al Hosni Independent, non-executive director Qualifications: Masters in Public Administration	General Manager, Muscat International Airport, Oman Airports Management Company SAOC; Director of Oman Telecommunications Company SAOG; Chairman of National Bureau Commercial Information; Director of Oman National Engineering and Investment Company SAOG; Director of Omania e-commerce.
David Kotheimer Independent, non-executive director Qualifications: 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	Regional Head of Strategy & Planning and Head of International for the HSBC Group's Middle East and North Africa (MENA) Region; 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.
Francesca McDonagh Independent, non-executive director Qualifications: Bachelor of Administration (Honours) from the University of Oxford in Philosophy, Politics and Economics	Head of Retail Banking and Wealth Management (RBWM) for HSBC in MENA since July 2011; formerly Head of Personal Financial Services in Hong Kong, responsible for consumer assets, direct channels, retail branches, customer experience and strategic development of the retail business.

Name & Category	Biography
Directors in office	
Abdulfattah Sharaf Independent, non-executive director Qualifications: Graduate of the University of Denver, USA with a Bachelor of Arts, majoring in political science and a minor in special education	CEO, UAE, HBME; formerly CEO Personal Financial Services, MENA, responsible for all of HSBC's Retail Banking business in MENA; former CEO of NBD Securities, a subsidiary of Emirates NBD. He is 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.
Resigned from office	
	Resigned from office with effect from 10 October 2013
Simon Cooper Chairman Qualifications: Graduate of the University of Cambridge and holds an MA in Law; Alumni of Columbia Business School	Deputy Chairman and Chief Executive Officer of HSBC MENA since May 2009; appointed a Group General Manager of HSBC in May 2008; former President & CEO, HSBC Korea; From 2004 – 2006 Managing Director and Head of Corporate & Investment Banking of HSBC in Singapore; previously the Deputy Chief Executive and Head of Corporate & Investment Banking in HSBC Thailand from 2001 to 2003. Prior to his role in Thailand, Mr Cooper had 12 years of experience as a Director in corporate Finance with the HSBC group in London, Hong Kong and Singapore.

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 2013, the Board of Directors had two standing committees, the Audit Committee and the Risk 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 two Board Committees met on the following dates 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.

2013 Dates	Board & Committee
10 January	Board, Audit, Risk
29 January	Board, Audit
5 March	Board, Audit
27 March (AGM)	Board
29 April	Board, Audit, Risk
2 July	Board,
29 July	Board, Audit, Risk
10 October	Board
30 October	Board, Audit, Risk
12 December (Strategy Day)	Board

6.4 The Board met 10 times (including the AGM and Strategy Day), the Audit Committee met 6 times and the Risk Committee met 4 times in 2013. 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	Board meetings attended (including AGM but not Strategy Day[2])	Audit meetings attended	Risk meetings attended	Attendance at last AGM	Director of any other SAOG Company?
David Eldon	Board Chairman	2	N/A	N/A	N/A	No
Simon Cooper	Resigned Board Chairman	8	N/A	N/A	Yes	No
Waleed Omar Al Zawawi	Board Deputy Chairman & Audit	9	6	N/A	Yes	Yes
Dr. Juma Ali Juma Al Juma	Board	7	N/A	N/A	Yes	Yes
Aimen Ahmed Al Hosni	Board & Risk	9	N/A	4	Yes	Yes
David Kotheimer	Board, Risk (Chairman) and Audit (Chairman)	9	6	4	Yes	No
Francesca McDonagh	Board, Risk and Audit	9	6	4	Yes	No
Abdulfattah Sharaf	Board and Risk	8	N/A	3	Yes	No

7. Remuneration

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

- RO500 as a sitting fee payable for every Board meeting attended; and
- RO500 as a sitting fee for every Committee meeting attended;

subject always to (i) an individual director cap of RO10,000 per annum and (ii) a maximum annual fees/expenses cap in aggregate (for the Board as a whole) of RO200,000.

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 2013, Simon Nigel Cooper, David Kotheimer, Francesca McDonagh and Abdulfattah Sharaf each waived their entitlement to be paid the whole or any part of their Board/Committee sitting fees.

2 The full board met on Strategy Day however it was not 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 Day fees in RO' in the table set out in paragraph 7.4 below.v

7.4 The total Board/Committee sitting fees and expenses paid during 2013 amounted to RO61,698 in accordance with the following table:

Name of the Director	Sitting fees RO	Strategy Day fees RO	Total
David Eldon	1,000	500	1,500
Simon Cooper	-	-	-
Waleed Omar Al Zawawi	7,500	500	8,000
Dr. Juma Ali Juma	3,500	500	4,000
Mr. Aimen Ahmed Al Hosni	6,500	500	7,000
David Kotheimer	-	-	-
Francesca McDonagh	-	-	-
Abdulfattah Sharaf	-	-	-
Total sitting fees	**18,500**	**2,000**	**20,500**
Total hotel, travel and other board expenses	**37,705**	**3,493**	**41,198**
GRAND TOTAL	**56,205**	**5,493**	**61,698**

7.5 The total remuneration paid in aggregate during 2013 to the senior members of the executive management team including salary, benefits, bonuses, stock options, gratuity and pensions amounted to RO1.845 million. The total remuneration paid in aggregate during 2013 to the top 5 officers amounted to RO938,000.

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 packaged performance related.

8. Audit Committee and other Committees

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

8.2 The Audit Committee comprises 3 members and the Risk Committee 4 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 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. Means of Communication with Shareholders and Investors

11.1 HBON had 3591 shareholders as at 31 December 2013.

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

11.3 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.

11.4 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).

11.5 In addition, the Interim Condensed Financial Report are 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.

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

12 Market Price and distribution of holdings

12.1 The following table sets out the HBON market price data during 2013:

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	0.206	0.175	6763.170
February	0.201	0.170	6974.500
March	0.194	0.180	7235.060
April	0.207	0.179	7606.593
May	0.203	0.197	7593.131
June	0.205	0.190	7836.884
July	0.193	0.186	8060.348
August	0.193	0.185	8414.765
September	0.186	0.176	8060.469
October	0.184	0.176	8135.175
November	0.174	0.171	8222.424
December	0.175	0.167	8165.535

12.2 The following table sets out the distribution of HBON share ownership during 2013:

% Shareholding	No of shareholders
Less than 5%	3590
Between 5 – 10%	0
More than 10%	1
Total	3591

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

13. Details of non-compliance by HBON

13.1 During the last 3 years a total fine of RO30,000 has been imposed on the Bank by the CBO for regulatory penalties. The fines relate to procedural, delegation of powers, policies and operational issues relating to integration. The Chairman has responded to the CBO and a Board approved action plan is in place to rectify the issues.

14. Disclosure

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

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

14.3 Disclosable related party transactions are kept under continual review. Details of any such transactions identified are included in the notice of annual general meeting.

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

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

15. Professional profile of the statutory auditor

15.1 KPMG is the statutory auditors of HBON.

15.2 The shareholders of the Bank appointed KPMG as the Bank's auditors for the year 2013.

15.3 KPMG is a leading accounting firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 130 people, amongst whom are 4 Partners, 5 Directors and 20 Managers, including Omani nationals and is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. KPMG is a global network of independent firms providing Audit, Tax and Advisory services and has more than 155,000 people working together in 155 countries worldwide.

15.4 KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

16. Audit Fees

16.1 During the year 2013, KPMG billed an amount of RO90,000 towards professional services rendered to the Company (RO56,000 for audit and RO34,000 for tax and other services).

17. Acknowledgment by the board of directors:

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

- The preparation of the financial statements have been made 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

David Gordon Eldon

Chairman

Management Discussion and Analysis

Financial Highlights

Earnings per share in RO	Dividends per share in RO	Net assets per share in RO
0.005 - *up 25%*	0.0038 - *up 280%*	0.153 - *up 4%*
2012: 0.004	2012: 0.001	2012: 0.147

For the year

Profit after taxation in RO'000	Total operating income in RO'000	Total operating expenses in RO'000
10,863 - *up 87%*	68,732 - *up 14%*	57,840 - *up 19%*
2012: 5,796	2012: 60,529	2012: 48,734

At the year-end

Loans and advances to customers in RO'000	Deposits from Customers in RO'000	Ratio of customer advances to customer deposits
980,472 - *down 18%*	1,792,703 - *down 3%*	54.7% - *down 10%*
2012: 1,194,443	2012: 1,851,567	2012: 64.5%
Total equity in RO'000	**Risk-weighted assets in RO'000**	
305,847 - *up 4%*	1,452,846 - *down 19%*	
2012: 294,137	2012: 1,796,589	

Capital ratios

CET1 /Tier 1 ratio	Total capital ratio
19.1% - *up 4%*	20.2% - *up 4.2%*
2012: 15.1%	2012: 16.0%

Performance ratios

Credit coverage ratios		Return ratios
Non-performing loans to total loans	**Coverage Ratio**	**Return on average share capital**
8.8% - *up 2%*	91.7% - *up 2%*	5.4% - *up 2%*
2012: 7.1%	2012: 89.4%	2012: 3.7%

Efficiency and revenue mix ratios

Cost efficiency ratio	Net interest income to total operating income	Net fee income to total operating income	Net trading income to total operating income
84.2% - *up 4%*	70.0% - *up 4%*	16.8% - *up 0%*	10.3% - *down 5%*
2012: 80.5%	2012: 66.2%	2012: 16.5%	2012: 14.9%

Share information at the year-end

RO0.100 ordinary shares in issue	Market capitalisation in RO'000	Closing market price (Muscat Securities Market)
2,000,312,790	350,055 - *down 15%*	0.175 - *down 15%*
2012: 2,000,312,790	2012: 414,065	2012: 0.207

Ewan Stirling
Chief Executive Officer HSBC Bank Oman S.A.O.G

Oman's Economy

In 2013, Oman recorded an actual GDP growth of 5% while inflation halved to 1.5% from 2012. Indicators suggest that the national economy will continue to grow at the same rate in 2014 as public expenditure increases to RO13.5 billion and the Sultanate benefits from long-term infrastructure and investment commitments. Non-oil revenue currently accounts for 17% of revenues and oil production output increased by 2.5% between January and November 2013, to further bolster government spending compared to the same period in the previous year.

In 2013, the government continued to demonstrate its commitment to improving living standards and creating job opportunities across the country, allocating increased funding to education and healthcare. The budget also focused on attracting local and foreign investment in the private sector, supporting Small and Medium Enterprises (SMEs) and establishing new industrial economic zones.

Oman's economic performance has contributed to its ranking as the world's 33rd most competitive country out of 148 countries in the 2013/2014 World Economic Forum's Global Competitiveness Index (GCI), ahead of Bahrain and Kuwait in the GCC, as well as emerging economies like Brazil and India. The World Economic Forum has positioned Oman in the 'transition' stage between efficiency-driven and innovation-driven economic development.

Oman's Banking Environment

Oman's banking sector recorded positive growth in 2013. Total assets of commercial banks increased by 7.2% to RO22.4 billion in December 2013, up from RO20.9 billion the previous year. Total credit increased by 6% to RO15.2 billion at the end of December 2013 compared with the same period in 2012.

Credit granted to government entities declined by 41.3%, while credit to the private sector and public enterprises increased by 6.8% and 1.8% respectively. Total deposits also saw a significant rise of 10% to RO15.59 billion in December 2013, up from RO14.17 billion in the previous year. Government deposits increased by 13.9% to RO4.5 billion and public sector deposits saw a decrease of 3.5% to RO9.35 billion as at December 2013.

HSBC Bank Oman at a glance

The merger of Oman International Bank S.A.O.G. (OIB) with HSBC Bank Middle East Limited's Oman operations (HSBC Oman) to form HSBC Bank Oman S.A.O.G. (HBON) in June 2012 represented the largest merger to date in the Sultanate's banking sector. HBON has over 80 branches across the Sultanate and employs over 1,100 employees. HBON offers diversified financial solutions to a customer base of more than 200,000 retail and 10,000 corporate clients. Globally, HSBC is one of the largest banking and financial services organisations in the world, with some 6,600 offices in around 80 countries and territories across six geographical regions.

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 and Markets ("GB&M").

Our Purpose and Values

Throughout our history we have connected customers to opportunities by being present in areas of growth. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose. Our ambition is to be the leading bank in Oman and our purpose and values will help us achieve that goal.

We will be led by our values in everything we do: being open to different cultures and ideas, dependable by doing the right thing, delivering on commitments, and being connected to customers, communities, our regulators and each other. We are ensuring that all our employees live by these values and feel empowered to act with courageous integrity.

Financial Performance Analysis

HSBC Bank Oman S.A.O.G.'s ("HBON") financial statements for the year ended December 31 2013 are reported as per the International Financial Reporting Standards 3 (IFRS 3) 'Business Combinations' requirements. The financial performance analysis represents twelve months of HBON's results in 2013 against a combination of twelve months of HSBC Oman and seven months (June to December) of OIB during 2012 as five months of OIB's results (January to May) forms part of the reserve on HBON's balance sheet in 2012.

Profit for the year: HBON recorded an 87.9% increase in net profit to RO10.9m for the year ended 31 December 2013 compared to RO5.8m for the year ended 31 December 2012. This increase was mainly due to higher revenues and lower loan impairment charges compared to 2012 and partly offset by an increase in operational costs reflecting the full year running costs of the merged bank. The global business segment analysis shows that Profit before tax of RO13.1m comprises of RO8.4m for CMB, a loss of RO2.6m for RBWM and RO7.3m profit for GB&M. The financial results are further analysed as follows:

Net Interest Income ('NII'): NII for the year ended 31 December 2013 rose by 20.0% and reached to RO48.1m compared to RO40.1m for the year ended 2012. CMB's NII for the year was RO14.2m, a RO1.9m decline from the previous year, due to an increasingly competitive environment, and deliberate exit via sell down of less attractively priced CMB syndicated loans and advances. RBWM's NII increased by RO10.2m due to higher advances despite reduced pricing, and GB&M NII marginally decreased by RO0.3m.

Net fees, trading and other operating income: Net fees, trading and other operating income was RO20.6m compared to RO20.4m in 2012. These comprise of CMB RO9.2m (2012: RO9.1m), RBWM RO6.3m (2012: RO5.9m) and GB&M RO5.1m (2012: RO5.5). The reasons for the underlying movements were:

- Net fee income increased by RO1.5m compared to previous year
- Net trading income decreased by RO1.9m due to lower trading volumes and margins.
- Other operating income increased by RO0.5m primarily due to the gain on sale of syndicated loans of RO1m and a gain on sale of the Merchant Acquiring business of RO0.7m in 2013, whereas the previous year included a negative goodwill of RO1.2m.

Loan impairment charges net of recoveries: Loan impairment charges net of recoveries were significantly reduced to RO2.2m, compared to a RO4.6m net charge in 2012. This was due to recoveries from corporate clients and the general provision release due to a reduction in corporate loans and advances in 2013. Non-performing loans as a percentage of total loans marginally increased from 7.1% in 2012 to 8.8% in 2013; the coverage ratio improved to 91.7% from 89.4% of 2012.

Operating expenses: Total operating expenses increased to RO57.8m compared to RO48.7m for the year ended 2012. This reflected the full year running costs of the Bank following the merger of the two entities in June 2012. Key items were:

- Employee compensation and benefits increased by RO1.3m, up by 6.0% reflecting the integration of standard terms and conditions across the Bank and our commitment to the HSBC Reward and Performance management policies.

- Marketing and advertising expenses increased by RO2.5m, primarily due to the inclusion of the Mandoos prize draw expenses which were previously reported as interest expense

- Amortisation and impairment of intangible assets increased by RO1m , primarily due to twelve months of amortisation against seven months in the previous year

Total assets: HBON's total assets decreased from RO2,412.8m to RO2,220.9m. This reflects the repositioning of the bank's balance sheet for future growth and enhanced performance. The major reduction in assets comprised of RO213.9m in total loans and advances, Cash and Central Bank balances of RO2.9m, other assets of RO126.8m and intangible assets of RO2.3m. This was partly offset by an increase in financial investments of RO142.7m and balances due from banks of RO10.5m.

Loans and advances: Customer lending decreased by 17.9% from RO1,194.4m in 2012 to RO980.5m as at 31 December 2013, primarily due to a reduction in the lower yielding CMB portfolio with a major focus on sell down of syndicated loans of OIB.

Customer deposits: Deposits from customers reduced by 3.2% from RO1,851.6m in 2012 to RO1,792.7m for the year ended 31 December 2013. HBON's strategy is to maintain and further develop diversified relationships across the corporate, institutional banking and retail businesses.

Cost Efficiency Ratio: Although HBON made good progress in 2013, the cost efficiency ratio stood at 84.2% (2012: 80.5%), which was outside our target range. The Cost Efficiency Ratio was impacted by one- off operating expenses arising from integration and lower operating revenues.

Capital Adequacy Ratio: HBON has maintained a high capital adequacy ratio at 20.2%, which is 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 above the minimum capital requirement, which HBON is well positioned to meet.

Our financial performance in 2013 has kept HBON appropriately capitalised to support our growth aspirations, and positioned 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 the first full year since the merger between HSBC Oman and Oman International Bank, the Retail Banking and Wealth Management business has made significant progress in implementing HBON's strategy, and is now well placed to capitalise on these going forward.

Following integration, the first quarter of 2013 involved continued training and development for frontline staff as they adapted to new systems and processes. The second quarter of 2013 saw investments in digital channels, personal loans, the Mandoos savings scheme, building the Customer Collection Point, and the completion of the 'Know Your Customer' programme.

The deployment of digital capabilities prepares the Bank to take advantage of the opportunities offered by a banking population which is showing increasing preference for a digitally enabled environment to carry out their banking transactions. Manual money transfers are declining and internet banking usage in HBON is on the rise; the percentage of customers who registered for internet banking and were actively using this channel have increased in 2013 by 48% and 42% respectively. Transfers via internet banking have also increased by 53%. Moreover, the implementation of Secure Key technology offers customers peace of mind to transfer money to any domestic or international third party accounts in a secure environment from the comfort of their home.

In 2013, HBON has seen a 37% growth in cash withdrawals through ATMs. The aim is to encourage customers to migrate to ATM and digital channels (such as Phone Banking, Mobile Banking, and Internet Banking) for their banking transactions, thus enabling them to benefit from these self-service channels, and allowing branches to be more focused on delivering a superior, relationship-based service to customers with non-transactional financial needs. HBON has a fleet of 128 ATMs spread across the Sultanate and is a member of the Oman Switch, providing access to all member Banks' ATMs for our clients.

Customer experience has significantly improved due to the re-engineering of a number of end-to-end processes, particularly in terms of card delivery and card usage at point-of-sales terminals and GCC ATMs. Overall, complaints management has improved as well, with increased focus on sustaining these achievements through a comprehensive service improvement plan. A survey has been commissioned to gather customer feedback regularly; the outcome of which will help inform the Bank's strategy. This is scheduled to start in the first quarter of 2014.

HBON is also committed to improving its customers' experience through a branch refurbishment programme; certain branches were refurbished and enhanced in 2013 to provide a wider range of services and a more comprehensive, unified and consistent customer experience. As part of this plan, the branch network was rationalised and four branches were merged as they were found to be physically adjacent to other HBON branches.

In 2013, HBON re-launched the Mandoos savings scheme, the first of its kind in Oman when it was introduced 25 years ago. The scheme encourages customers to save, while building long-term customer relationships and offering cash prizes.

In 2014, RBWM business will focus on its key priorities of improving customers' experience through all customer touch points, relationship-led credit expansion, growing the premium segment and building a wealth franchise, while maintaining support for all retail customers. The development of HBON's digital channels will continue as it aims to make banking more convenient and secure. HBON will soon launch an Arabic public website and mobile banking application.

There will be further investments in digital channels, Premier and Wealth Management and our branches to realise our aspiration of becoming the leading bank in Oman for customer experience. This will be strongly supported by our people agenda; recruiting, training, and retaining local talent, and increasing productivity will be the key focus for RBWM in 2014. In addition, the implementation of the Retail Banking Incentive Framework will ensure that the organisation moves to a needs-based approach to banking, where we satisfy customers' financial needs by talking to them, understanding their requirements, recommending suitable solutions, acting on their preferences and providing the right level of service.

Commercial Banking

A key factor in being able to expand our corporate client base was the ability to leverage HSBC Group's global expertise with local knowledge, and placing a greater emphasis on international connectivity.

A major achievement for HBON last year was playing a critical role in one the largest transactions in the Middle East in recent years. HBON was appointed issue manager for the SembCorp Salalah Water and Power IPO, as SembCorp commenced trading of its ordinary shares on the Muscat Securities Market. The IPO, issued in September 2013 and valued at RO52 million, was the largest transaction in the Sultanate last year. The transaction was also considered highly successful by SembCorp, as the IPO was oversubscribed 8.3 times, with interest seen from both international and local investors and we continued to demonstrate our expertise in supporting local businesses with their international financing requirements.

This deal complements the Bank's goal of becoming the partner of choice for Omani businesses looking to facilitate trade with regional and international partners. In 2013, HBON was also voted "Best Domestic Cash Management Bank" in Oman, for the second year running, by Euromoney.

Oil and Gas, Petrochem and Infrastructure remain key areas of potential where HBON continues to build momentum. Utilising our close local relationships with public sector and large corporate clients, HBON has been able to demonstrate its investment banking capabilities. We are committed to offering international connectivity to local offices of multinationals and local corporates in Oman, and we continue to show traction in this space, building and sustaining our competitive advantage.

Our focus for the forthcoming year in Business Banking (SME) will be on delivering our international trade and payments capability to further support this important segment, and to recognise this key part of Oman's National Agenda.

We have enabled host-to-host connectivity between the Bank and our clients. This service is unique to HBON and we expect growth in this area as more clients are attracted to managing a high-end server solution. We have also re-introduced HSBCnet to customers in Oman, offering clients access to HSBC's global online business platform where they can log in securely to manage payments, receivables, liquidity and trade transactions, all with a single log in, anytime, worldwide.

In 2014, we will continue to consolidate and leverage the strength of HBON's platforms to deliver the full strength of HSBC's global Commercial Banking capability to clients in Oman, while continuing to fulfil our ongoing commitment to provide innovative solutions and technology to corporates based here.

Global Banking and Markets

Drawing on its HSBC offices worldwide, GB&M offers local knowledge, combined with an understanding of global economics, enabling the Bank to help clients access rapid-growth and emerging markets. In partnership with CMB, HBON aspires to be the preferred banking partner for multinational companies operating in the Sultanate. Our services integrate relationship managers and product specialists, allowing HBON to develop and deploy tailor-made financial solutions that are emerging market-led, and financing-focused.

GB&M clients have access to in-house research produced regionally by a dedicated team based in Dubai. The research provides a tailored, macroeconomic analysis and forecasts for investments in the region. HBON 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 Technology and Services

Building on the significant infrastructure investment following the merger, we have built a robust platform on which our customers can transact, our businesses can grow and our staff can work effectively. We have successfully upgraded the entire communications network with connectivity between branches/offices/ATMs and data centres, along with new computer equipment for all staff and branches..

Digital banking took on greater importance in 2013, and alongside the development of Secure Key technology, we upgraded the HSBC Mobile Banking application to offer simplified navigation and allow customers to transfer funds to third party accounts domestically and internationally.

In 2013, HBON delivered a further innovation to enhance its customers' experience by opening a dedicated Customer Collection Point (CCP) adjacent to HBON's headquarters, enabling customers in Muscat to collect their credit/debit cards, cheque books and telephone banking pins at their convenience. The CCP also aims to improve our in-branch experience, allowing greater segmentation of services and efficient allocation of resources to focus on serving customer requirements more efficiently.

In May 2013, HBON exited its Oman-based Point of Sale business and all its merchant acquiring services were transferred to Bank Muscat through a referral agreement, completed without any disruption to service. This was is in line with HBON's desire to restructure any non-strategic business.

HBON has a long-term ATM network enhancement programme. In 2013, HBON continued to upgrade this network as it phases out legacy systems. New ATMs have also been introduced in strategically important locations to serve customers more effectively. Additionally, 70% of existing ATMs are full service machines, allowing customers to perform multiple functions through the interactive touchscreen, including the option to deposit and withdraw funds.

Human Resources

Following the merger, we needed to integrate the Human Resources policies of both organisations. This process, which began in 2012, included the harmonisation of performance management frameworks, reward, compensation and benefits.

After the completion of a detailed review, salaries, organisational structures, allowances and bonus levels were aligned. We re-introduced the HSBC Global Performance Management policy and system as all branches became part of the larger group.

With effect from 1 January 2013, the HSBC Performance Management framework was deployed to all employees through a series of training programmes and performance objective setting activities, leading to greater consistency and objectivity in how staff are assessed and rated.

In April and May 2013, a series of 'Our Journey to Success' (OJTS) events took place with all staff, in Muscat, Sohar, Nizwa and Salalah. OJTS was a cultural integration programme and employee experience, aimed at delivering a common message to staff about HBON's vision, brand, strategy and values.

To enhance the branch management structure across the Sultanate and help make our network more customer-focused, we re-aligned branches such that some smaller branches are now 'clustered' with other similar sized branches within close proximity, and managed by a cluster Branch Manager. This re-organisation enabled branch staff to benefit from individual career conversations to identify and clarify their future aspirations, providing HBON with a clear view of their career and role expectations.

A new Arabic language Human Resources call centre was introduced in Oman to serve the entire Arabic-speaking population of HSBC globally, from a central base in Muscat. This move further strengthens HSBC's commitment to Oman and reflects the growing importance of the Middle East and North African markets, as well as the multi-cultural environment fostered within the Bank.

Learning, Talent, Resourcing and Organisational Development

While 2012 was a year of integration, 2013 focused specifically on training and staff development, embedding the HSBC Group strategy, and improving staff knowledge of our products and systems. In addition, a significant amount of training was delivered on how to enhance our customers' experience and a bespoke training syllabus for Customer Service Representatives and Branch Managers was also introduced.

HBON launched a two-year graduate programme in Oman, aimed at fostering leadership development and personal growth and providing more opportunities in the banking sector for emerging Omani talent. During the course, graduates will rotate between the CMB, Business Banking, RBWM, Trade & Supply Chain and Risk departments to provide a well-rounded view of the Bank's services and shape the candidates' skills and capabilities. The programme also provides opportunities to learn about the Bank's Human Resources, Communications and Corporate Sustainability functions to impart insights into the core values that reinforce HSBC's corporate culture. HBON works with each participant to identify their areas of interest in order to match individual career aspirations with the right opportunities to expand their skills set.

We remain focused on identifying and developing existing Omani talent and are building succession plans, backed with leadership and career development programmes. In the fourth quarter, HBON appointed three Omani nationals as senior executives in key strategic business areas. These experienced Omani bankers bring extensive local knowledge and banking experience to HBON.

HBON employees also participated in an HSBC Group bi-annual staff survey, recording one of the highest participation rates in the region. The survey results also indicated a high level of employee engagement, compared to our peers and external best-in-class benchmarks.

In 2013, RBWM initiated a 'Customers at the Heart' programme in Oman, which aims to keep customers' needs and services at the forefront at all times and recognises staff who deliver an exceptional experience to customers.

The Group's global CMB training plan, known as 'CMB Academy', became available to employees in Oman for the first time. The Academy promotes self-learning, and also offers mandatory e-learning and various other relevant courses, which includes some classroom training. The online tool allows each employee to search and view available courses, displaying whether learning is required or recommended.

In 2013, 6,500 classroom and e-learning training days were delivered to over 1,100 employees; a 60% increase from 2012. Post-merger, we have welcomed new employees and raised the number of available senior positions at Deputy General Manager level from two to ten. Coupled with our continued focus on recruiting and retaining the very best local talent, we are now able to provide clear career paths into senior management roles for our Omani workforce.

Internal Audit

The Bank's Internal Audit (IA) function is tasked with the assessment of the design and effectiveness of our risk management frameworks. IA appraises the performance of primary and secondary controls, targeting key risk areas across the Bank. The independence of IA is ensured by the Head of IA having a direct reporting line to the Chairman of the HBON Audit Committee.

The Risk and Audit Committees, as well as the HBON executive management team, require objective and independent assurance on all matters relating to risk management, governance and control frameworks (including financial controls). IA provides this by employing a systematic, disciplined approach, adding value to and improving operations through process and control enhancement recommendations. These measures ensure that HBON accomplishes its objectives within the framework of its stated risk appetite.

In mid-2013, HBON's IA team formally joined the HSBC Group's Internal Audit Function and began adopting HSBC's global audit standards.

Our Operations in India and Pakistan

The Bank continues to work closely with the regulators in Pakistan and India to implement the decision taken by the former OIB Board of Directors and approved by the OIB shareholders to merge or dispose its branches and business in Pakistan and India. With the agreement of the State Bank of Pakistan, HBON closed two former OIB branches in Pakistan and continues to operate one branch in Karachi, and two branches in India.

Business Continuity Planning

HBON ensures that its systems and procedures are sufficiently resilient to run its business effectively in the event of any unforeseen disaster (i.e. natural, environmental or man-made). It continuously aims to strengthen and implement a robust Business Continuity Plan for its "emergency preparedness".

HBON has made significant strides towards enhancing its Business Continuity framework. This is comprised of:

- Conducting Business Impact Analyses for each business unit annually.
- Identifying a dedicated contingency site for all critical business units and providing remote access to all critical business functions.
- Conducting yearly mandatory business continuity awareness workshops for all concerned staff.
- Improving the business continuity readiness for the Bank through comprehensive testing of individual Business/Function recovery plans.

Corporate Social Responsibility

HBON fully understands that the sustainability and prosperity of the community are crucially important to its success. HBON's Corporate Sustainability strategy looks far into the future, while acting in the present with a focus on long-term, intergenerational policies. At least 75% of our community investment activity targeted education, environment and community development.

In 2013, HBON continued working closely with the Oman Chamber of Commerce and Industry (OCCI) on the Al Najah programme for the second consecutive year. The programme supports Omani high school graduates from underprivileged families to further their education. The "Kids Read" educational programme concluded its third year in conjunction with the Ministry of Education and the British Council, promoting reading among young school children. The programme has expanded this year outside of Muscat for the first time to include many new participating schools from Al Amerat and Quriyat.

Creating awareness of the impact of climate change is a very important undertaking, especially when keeping long-term sustainability in mind. To this end, HBON drove a national campaign in support of Earth Hour, encouraging the community to back the initiative and drive change. 2013 also saw the culmination of the four-year Frankincense Project, a research project conducted by the Environment Society of Oman, of which HBON was the sole sponsor. The Frankincense Project is exploring sustainable harvesting methods for the indigenous bosweila sacra plant, ensuring the long term viability of this important species as part of the ecosystem and as a sustainable source of income for the community. The Bank also distributed 1,200 food hampers to underprivileged families across the Sultanate during the Holy Month of Ramadan.

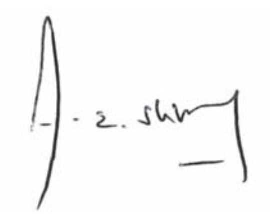
Looking Ahead

Government expenditure for 2014 is estimated at RO13.5billion and, based on an assumed oil price of US $85 per barrel the projected deficit in the budget will be RO1.8billion, largely due to additional public expenditure. The deficit will be covered by borrowing and general reserves and will not halt progress of planned developments.

The 2014 budget has been described as the biggest in Oman's history and will focus on supporting growth and stimulating the private sector. Oil revenue represents 83% of total revenue. Crude oil revenue has been calculated on the basis of a daily average oil production of 945,000 barrels in 2014.

Important projects highlighted in the budget include the refinery and petrochemical project at Duqm Economic Zone, Sohar refinery expansion project, a project for assembling and manufacturing buses in the Sultanate – a joint venture in cooperation with Qatari Transportation Company - completion of the Oman Convention and Exhibition Centre and several other mega tourism projects. Infrastructure improvement plans have also been allocated significant funds, including road projects (RO807million) and the first phase of the national railway project which will start this year (an estimated RO1billion). The cost of several large healthcare projects has also been estimated at RO384million.

In the coming year, HBON will focus on the long-term growth plan of the business in Oman to give customers added convenience and functionality in managing their finances. We will build on existing relationships and introduce new ways to connect customers to relevant local and international opportunities with international support, and delivering an increasingly consistent and superior customer experience as we aim to become the leading bank in Oman.



Ewan Stirling
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Report to the Board of Directors of HSBC Bank Oman SAOG in respect of the 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 ("the Procedures") with respect to the Basel II – Pillar III and Basel III disclosures ("the Disclosures") of HSBC Bank Oman SAOG (the "Bank") set out on the pages 32 to 53 as at and for the year ended 31 December 2013. The Disclosures were prepared by the Management in accordance with CBO 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 were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and CBO Circular BM 1114 dated 17 November 2013, as amended.

We report our findings as follows:

Based solely on performance of the Procedures, we found no exceptions which require to be reported herein.

Because the 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; and we accept no liability to any third party. This report relates only to the Bank's Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

28 January 2014

KPMG

Statutory Disclosure under Basel II - Pillar III and Basel III Framework
for the year ended 31 December 2013

HSBC Bank Oman S.A.O.G. ('the Bank'), formerly Oman International Bank S.A.O.G. ('OIB'), is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman. Additionally the Bank has branches in India and Pakistan (overseas branches).

The operations of HSBC Bank Middle East Limited Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. Following the merger, HSBC Bank Middle East Limited ('HBME) holds 51% of the shares in the combined entity.

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 consolidated for the Bank's operations in Oman, India and Pakistan. 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 Standardized 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).

Quantitative disclosure

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)

Additional Tier 1 Capital consisting of the following:

- 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's 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 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.

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	35,245
Retained earnings	57,901
Regulatory adjustments to CET1	(16,461)
CET1 capital	**276,716**
Additional Tier 1 capital	-
Total Tier 1 capital	**276,716**
Fair value reserve for available-for-sale equity securities	2,335
Collective allowances for impairment	14,237
Tier 2 capital	**16,572**
Total regulatory capital	**293,288**

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

The Bank currently set the internal minimum target Capital Adequacy Ratio (CAR) at 20% for 2013 and 17% for 2014 and future years.

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 Standardized 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 template of capital, risk weighted assets and capital adequacy ratio as at 31 December 2013 are as follows:

RO '000

Details	Gross balance (Book value)	Net balances (Book value)*	Risk weighted assets
On-balance sheet items	2,170,758	2,132,872	1,032,097
Off-balance sheet items	287,556	287,556	225,696
Derivatives	2,857	2,857	2,857
Total	**2,461,171**	**2,423,285**	**1,260,650**
Market risk			61,302
Operational risk			130,894
Total			**1,452,846**
CET 1 capital			276,716
Additional Tier 1 capital			-
Total Tier 1 capital			**276,716**
Tier 2 capital			**16,572**
Total regulatory capital			**293,288**
Capital requirement for credit risk			151,278
Capital requirement for market risk			7,356
Capital requirement for operational risk			15,707
Total required capital			**174,341**
CET1 / Tier 1 Capital ratio			**19.05%**
Tier 1 Capital ratio			**19.05%**
Total capital ratio			**20.19%**

*Net of provisions and reserve interest and eligible collaterals

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 31 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 follows the high-level credit policies formulated by HSBC Holdings plc . This includes application of credit risk rating system for corporate counterparties for which the Bank uses a 22 point credit risk rating system called 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 HSBC 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 31.3 of the financial statements.

The Bank's credit risk limits to counterparties in the financial and government sectors are managed centrally at HSBC Group Head Office in London through the HSBC Middle East in Dubai. 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 centrally managed by the HSBC Group and are subject to Group approval.

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 Head 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.

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.

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.

The assessment for collective impairment in the corporate portfolio includes analysis of both economic and political factors existing at the time. Economic factors include the level of external indebtedness, the debt service burden and access to external sources of funds to meet the debtor country's financing requirements. Political factors taken into account include the stability of the country and its government, threats to security and the quality and independence of the legal system.

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

RO' 000

Type of Credit Exposure	Average gross exposure		Total gross exposure as at	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
Overdraft	88,085	24,293	87,992	90,702
Personal loans*	417,678	452,534	431,981	414,703
Loans against trust receipts	132,333	152,943	88,774	164,751
Other loans	492,062	746,792	448,426	593,191
Bills purchased / discounted	27,810	22,521	24,302	30,063
Total	**1,157,968**	1,399,083	**1,081,475**	1,293,410

*Personal loans are excluding the personal overdrafts of RO5,029K (31 Dec 2012: RO6,508K) which has been included under total overdrafts.

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	87,225	11	-	79	677	-	87,992
Personal loans*	428,938	1,457	1,314	90	1	181	431,981
Loans against trust receipts	88,774	-	-	-	-	-	88,774
Other loans	417,887	-	-	1,491	173	28,875	448,426
Bills purchased / discounted	13,915	2,080	-	8,096	-	211	24,302
Total	**1,036,739**	**3,548**	**1,314**	**9,756**	**851**	**29,267**	**1,081,475**

*Personal loans are excluding the personal overdrafts of RO5,029Kwhich has been included under total 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	31,853	66,645	2,056	100,554	63,408
Export trade	373	47	11,202	11,622	-
Wholesale & retail trade	10,626	23,221	-	33,847	19,097
Mining & quarrying	498	28,808	-	29,306	403
Construction	19,045	23,650	2,995	45,690	59, 749
Manufacturing	3,042	185,526	653	189, 221	12,302
Electricity, gas and water	2,332	45, 276	129	47,737	-
Transport and communication	610	10,336	-	10, 946	2,468
Financial institutions	-	-	-	-	-
Services	4,341	101,905	6,879	113, 125	108,962
Personal loans*	5,029	429, 029	-	434,058	87
Agriculture and allied activities	904	2,258	-	3, 162	-
Government	-	18,285	-	18,285	-
Non-resident lending*	10	33,319	-	33,329	-
All others	9,329	876	388	10,593	100,276
Total	**87,992**	**969,181**	**24,302**	**1,081,475**	**366,752**

*The personal loans does not includes non resident housing loans of RO2,952K, which has been included under the head non resident lending.

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
Upto 1 month	27,455	146,790	10,671	184, 916	95,667
1-3 months	-	65,399	7,844	73, 243	112, 195
3-6 months	1	32,578	5,588	38, 167	46, 555
6-9 months	3	39,389	-	39, 392	9,925
9-12 months	-	6,607	-	6,607	40,790
1-3 years	-	79,947	-	79,947	57,284
3-5 years	-	519,957	-	519,957	4,099
Over 5 years	60,533	78,514	199	139,246	237
Total	**87,992**	**969,181**	**24,302**	**1,081,475**	**366,752**

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	100,554	27,575	730	11,042	12,416	1,552	377
Export trade	11,622	420	112	383	37	7	-
Wholesale & retail trade	33,847	5,857	280	557	5,193	40	17
Mining & quarrying	29,306	-	293	-	-	-	-
Construction	45,690	28,885	168	11,675	16,045	832	8
Manufacturing	189,221	5,735	1,835	2,447	2,354	10	611
Electricity, gas and water	47,737	3,136	446	631	2,505	1	-
Transport and communication	10,946	2,192	88	1,512	630	15	37
Financial institutions	-	-	-	-	-	-	-
Services	113,125	4,760	1,084	1,380	2,560	104	71
Personal loans*	434,058	4,569	8,587	4,028	916	4,113	3,221
Agriculture and allied activities	3,162	1,163	20	249	438	78	66
Government	18,285	32	183	19	13	3	-
Non-resident lending*	33,329	1,502	348	1,410	92	-	-
All others	10,593	8,842	63	1,716	6,518	119	4,464
Total	**1,081,475**	**94,668**	**14,237**	**37,049**	**49,717**	**6,874**	**8,872**

*The personal loans do not includes non-resident housing loans of RO2,952K, which has been included under the head non-resident lending.

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	1,036,739	92,316	14,234	34,880	49,534	6,860	8,803
Other GCC countries	3,548	11	-	7	4	-	-
OECD countries	1,314	-	-	-	-	-	-
India	9,756	1,491	3	1,403	88	-	-
Pakistan	851	850	-	759	91	14	69
Others	29,267	-	-	-	-	-	-
Total	**1,081,475**	**94,668**	**14,237**	**37,049**	**49,717**	**6,874**	**8,872**

Movements of Gross Loans:

RO '000

Details	Performing loans		Non-performing loans			
	Standard	S.M	Sub-standard	Doubtful	Loss	Total
Opening balance	1,182,945	18,020	4,322	15,794	72,329	1,293,410
Migration / changes (+/-)	(21,314)	4,908	3,965	(12,266)	24,598	(101)
New loans	963,831	15,585	-	-	-	979,416
Recovery of loans	1,162,146	15,022	1,634	1,778	4,558	1,185,138
Loans written off	-	-	3,195	5	2,904	6,104
Closing balance	**963,316**	**23,491**	**3,458**	**1,745**	**89,465**	**1,081,475**
Provisions held	15,480	335	1,954	941	32,576	51,286
Reserve Interest	542	28	132	247	48,768	49,717

Credit Risk disclosures relating to the Standardised Approach

The Bank uses credit rating agencies for the assessment of credit risk under the Basel II Standardized 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 RO1,260 m as at 31 December 2013 after the application of credit risk mitigants.

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 as defined in the Banks Lending Guidelines will be applied.

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 RO37.886 million.

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 31.5 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 template for VAR for Global markets was as follows:

	2013	**Average**	**Maximum**	**Minimum**	2012	Average	Maximum	Minimum
	RO'000	**RO'000**	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000
Total VAR	**205**	**233**	**368**	**101**	193	140	193	80
Trading VAR	**3**	**4**	**23**	**-**	98	59	99	15

The principal objective of market risk management of 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 impact of an incremental / decreased 100 basis points parallel shift on net interest income for the next 12 months is given as follows:

		2013	2012
		RO'000	RO'000
1% UP -	Increase in NII by	**2,186**	5,213
1% DOWN -	Decrease in NII by	**(1,245)**	(5,213)

<u>**Ramp up scenario**</u>

	2013	2012
25bp increase per quarter	**1,366**	3,258
25bp decrease per quarter	**(1,366)**	(3,258)

The capital requirements for market risk are as follows:

	RO'000
Interest rate risk	-
Equity position risk	-
Commodities position risk	-
Foreign exchange risk	4,904
Total	**4,904**

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 31.4 of 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.

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 balance sheet 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 2013.
- 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:

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. 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 addition, there is a quarterly Operational Risk and Internal Control (ORIC) meeting with the regional HSBC ORIC function. The capital requirement of RO 15.7 million is based on the average gross income for the three year period ending 31 December 2013.

The management of operational risk is set out in note 31.7 of financial statements.

Basic Indicator Approach calculation

Year	Business line	Total gross income	Total gross (after negative GI adjustment)	Alpha	Capital charge
2011	Total business	78,626	78,626	15.00%	11,794
2012	Total business	60,940	60,940	15.00%	9,141
2013	Total business	69,864	69,864	15.00%	10,480
Number of years with positive total gross income					3
Basic Indicator approach capital charge @ 12.50					10,472
Total Risk Weighted Assets - Operational Risk					**130,894**

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	57,901	
3	Accumulated other comprehensive income (and other reserves)	35,245	
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	293,177	-
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(25)	(98)
8	Goodwill (net of related tax liability)	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(2,476)	(9,903)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(791)	(3,168)
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)	-	-

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	(13,169)	(13,169)
28	Total regulatory adjustments to Common equity Tier 1	(16,461)	
29	Common Equity Tier 1 capital (CET1)	276,716	
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	-	
32	of which: classified as liabilities under applicable accounting standards	-	
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	(13,169)	- -
	OF WHICH: Prudential valuation adjustments	(98)	-
	OF WHICH : Other intangibles other than mortgage-servicing rights (net of related tax liability)	(9,903)	-
	OF WHICH: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(3,168)	-
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)	276, 716	
	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)*	16,572	
51	Tier 2 capital before regulatory adjustments	16,572	
	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)	16,572	
59	Total capital (TC = T1 + T2)	293,288	
	RISK WEIGHTED ASSETS IN RESPECT OFAMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		
	OF WHICH: [INSERT NAME OFADJUSTMENT]		
	OF WHICH.....		
60	Total risk weighted assets (60a+60b+60c)	1,452,846	
60a	*Of which: Credit risk weighted assets*	1,260,650	
60b	*Of which: Market risk weighted assets*	61,302	
60c	*Of which: Operational risk weighted assets*	130,894	

Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	19.05%	
62	Tier 1 (as a percentage of risk weighted assets)	19.05%	
63	Total capital (as a percentage of risk weighted assets)	20.19%	
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 temporarydifferences (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	Under regulatory scope of consolidation	Reference
	As at 31.12.2013	As at 31.12.2013	
Assets			
Cash and balances with CBO	117,629	117,629	
Balance with banks and money at call and short notice	194,311	194,311	
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:	823,311	823,311	
Investments in Subsidiaries	-	-	
Investments in Associates and Joint Ventures	-	-	
Held for Trading	-	-	
Loans and advances of which :	1,081,475	1,081,475	
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks	-	-	
Loans and advances to domestic customers	-	1,000,410	
Loans and advances to non-resident customers for domestic operations	-	-	
Loans and advances to non-resident customers for operations abroad	-	33,329	
Loans and advances to SMEs	-	47,736	
Financing from Islamic banking window	-	-	
Provision against Loans and advances of which:	(101,003)	(101,003)	
Provision for Loan impairment - Specific	(37,049)	(37,049)	

Provision for Loan impairment – general	(14,237)	(14,237)	
Reserve Interest	(49,717)	(49,717)	
Fixed assets	31,068	31,068	
Other assets of which:	74,097	74,097	
Goodwill and intangible assets Out of which:			
goodwill			a
Other intangibles (excluding MSRs)	12,379	12,379	b
Deferred tax assets	3,959	3,959	
Goodwill on consolidation			
Debit balance in Profit & Loss account			
Total Assets	2,220,888	2,220,888	
Capital & Liabilities			
Paid-up Capital Of which:			
Amount eligible for CET1	200,031	200,031	h
Amount eligible for AT1	-	-	i
Reserves & Surplus	105,816	105,816	
Total Capital	305,847	305,847	
Deposits Of which:			
Deposits from banks	41,830	38,534	
Customer deposits	1,792,703	1,792,703	
Deposits of Islamic Banking window	-	-	
Other deposits(please specify)	-	-	
Borrowings Of which:		3,296	
From CBO	-	-	
From banks	-	3,296	
From other institutions & aagencies	-	-	
Borrowings in the form of bonds, Debentures and sukuks	-	-	
Others (Please specify)	-	-	
Other liabilities & provisions Of which:	80,508	80,508	
DTLs related to goodwill	-	-	c
DTLs related to intangible assets	-	-	d
TOTAL	2,220,888	2,220,888	

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	57,901	
3	Accumulated other comprehensive income (and other reserves)	35,245	
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	293,177	
7	Prudential valuation adjustments	(25)	
8	Goodwill (net of related tax liability)	-	(a-c)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(2,476)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(792)	
11	Regulatory adjustments applied to Common Equity Tier 1 and Tier 2 to cover deductions	(13,168)	
	Common Equity Tier 1 capital (CET1)	276,716	

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 mil, as of most recent reporting date)	RO 200.031 million
9	Par value of instrument	RO 200.031 million
10	Accounting classification	Common Equity Shares
11	Original date of issuance	Refer note 19 of Financial Statements
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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HSBC BANK OMAN SAOG

Report on the financial statements
We have audited the financial statements of HSBC Bank Oman SAOG ("the Bank"), set out on pages 55 to 103, which comprise the statement of financial position as at 31 December 2013, the statements of profit or loss and other 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.

Auditors' 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements
In our opinion the financial statements of the Bank as at and for the year ended 31 December 2013, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

28 January 2014

Khalid Masud Ansari

2012 US$'000	**2013 US$'000**		Notes	**2013 RO'000**	2012 RO'000
128,610	**148,410**	Interest income		**57,138**	49,515
(24,517)	**(23,506)**	Interest expense		**(9,050)**	(9,439)
104,093	**124,904**	**Net interest income**		**48,088**	40,076
26,008	**29,912**	Net fee income		**11,516**	10,013
23,398	**18,452**	Net trading income		**7,104**	9,008
34	**426**	Dividend income		**164**	13
3,686	**4,831**	Other operating income	**4**	**1,860**	1,419
157,219	**178,525**	**Net operating income before loan impairment charges and other credit risk provisions**		**68,732**	60,529
(12,010)	**5,813**	Loan impairment charges and other credit risk provisions - net of recoveries	**5**	**2,238**	(4,624)
145,209	**184,338**	**Net operating income**		**70,970**	55,905
(123,119)	**(144,299)**	Operating expenses	**6**	**(55,555)**	(47,401)
(3,462)	**(5,935)**	Amortisation and impairment of intangible assets	**8**	**(2,285)**	(1,333)
(126,581)	**(150,234)**	**Total operating expenses**		**(57,840)**	(48,734)
18,628	**34,104**	**Profit before tax**		**13,130**	7,171
(3,571)	**(5,888)**	Tax expense	**7**	**(2,267)**	(1,375)
15,057	**28,216**	**Profit for the year**		**10,863**	5,796
		Other comprehensive income/(expense)			
		Items that will be reclassified subsequently to profit or loss when specific conditions are met			
		Available-for-sale investments			
3,423	**10,332**	- fair value gains		**3,978**	1,318
(342)	**(1,421)**	- income tax		**(547)**	(132)
485	**(1,517)**	Exchange differences		**(584)**	187
18,623	**35,610**	**Total comprehensive income for the year**		**13,710**	7,169
US$ 0.010	**US$ 0.013**	**Earnings per share - basic**	**9(a)**	**RO 0.005**	RO 0.004

The accompanying notes on pages 59 to 103 form an integral part of these financial statements.

2012 US$'000	2013 US$'000		Notes	2013 RO'000	2012 RO'000
		Assets			
313,091	**305,530**	Cash and balances with central banks		**117,629**	120,540
477,554	**504,704**	Due from banks	**10**	**194,311**	183,858
3,102,449	**2,546,681**	Loans and advances to customers - net	**11**	**980,472**	1,194,443
1,767,979	**2,138,470**	Financial investments	**12**	**823,311**	680,672
489,811	**160,306**	Other assets	**13**	**61,718**	188,577
38,088	**32,153**	Intangible assets	**14**	**12,379**	14,664
78,084	**80,696**	Property and equipment	**15**	**31,068**	30,062
6,267,056	**5,768,540**	**Total assets**		**2,220,888**	2,412,816
		Liabilities and equity			
		Liabilities			
119,921	**108,649**	Due to banks	**16**	**41,830**	46,170
4,809,266	**4,656,371**	Deposits from customers	**17**	**1,792,703**	1,851,567
573,874	**209,112**	Other liabilities	**18**	**80,508**	220,942
5,503,061	**4,974,132**	**Total liabilities**		**1,915,041**	2,118,679
		Equity			
519,562	**519,562**	Share capital	**19**	**200,031**	200,031
84,865	**87,685**	Legal reserve	**20(a)**	**33,759**	32,673
3,211	**3,860**	Statutory reserve	**20(b)**	**1,486**	1,236
4,248	**13,158**	Available-for-sale fair value reserve	**20(d)**	**5,066**	1,635
152,109	**170,143**	Retained profits		**65,505**	58,562
763,995	**794,408**	**Total equity**		**305,847**	294,137
6,267,056	**5,768,540**	**Total equity and liabilities**		**2,220,888**	2,412,816
US$ 0.381	**US$ 0.397**	**Net assets per share**	9(b)	**RO 0.153**	RO 0.147
		Off-balance sheet items:			
		Contingent liabilities and commitments			
225,408	**241,678**	- Documentary credits		**93,046**	86,782
869,291	**710,925**	- Guarantees		**273,706**	334,677
2,889,430	**2,807,114**	- Others		**1,080,739**	1,114,228
3,984,129	**3,759,717**		**21**	**1,447,491**	1,535,687

The accompanying notes on pages 59 to 103 form an integral part of these financial statements.

The financial statements were authorised for issue on 28 January 2014 in accordance with a resolution of the Board of Directors.

David Gordon

David Gordon Eldon
Chairman

Ewan Stirling
Chief Executive Officer

Statement of changes in equity for the year ended 31 December 2013

	Share capital	Legal reserve	Statutory reserve	Available-for-sale fair value reserve	Merger reserve (note 3)	Retained profits	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2012 (refer note 3)	96,805	32,093	973	-	(82,856)	67,119	114,134
Total comprehensive income for the year							-
Profit for the year	-	-	-	-	-	5,796	5,796
Other comprehensive income / (expense) for the year net of income tax							
Effect of currency translation	-	-	(32)	-	-	219	187
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	1,186	-	-	1,186
Total other comprehensive income for the year	-	-	(32)	1,186		219	1,373
Total comprehensive income for the year	-	-	(32)	1,186	-	6,015	7,169
Reclassification from retained earnings	-	-	-	449	-	(140)	309
Movements as a result of merger	-	-	-	-	84,066	(13,557)	70,509
Transfer to legal and statutory reserve	-	580	295	-	-	(875)	-
	-	580	263	1,635	84,066	(8,557)	77,987
Transaction with shareholders, recorded directly in equity							
Share capital issued	102,016	-	-	-	-	-	102,016
Stock dividend issued for 2011	1,210	-	-	-	(1,210)	-	-
At 31 December 2012	200,031	32,673	1,236	1,635	-	58,562	294,137
Total comprehensive income for the year							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**10,863**	**10,863**
Other comprehensive income / (expense) for the year net of income tax							
Effect of currency translation	**-**	**-**	**(137)**	**-**	**-**	**(447)**	**(584)**
Net movement in fair value of available-for-sale investments (net of tax)	**-**	**-**	**-**	**3,431**	**-**	**-**	**3,431**
Total other comprehensive income for the year	**-**	**-**	**(137)**	**3,431**	**-**	**(447)**	**2,847**
Total comprehensive income for the year	**-**	**-**	**(137)**	**3,431**	**-**	**10,416**	**13,710**
Transfer to legal and statutory reserve		**1,086**	**387**	**-**	**-**	**(1,473)**	**-**
	-	**1,086**	**250**	**3,431**	**-**	**8,943**	**13,710**
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2012	**-**	**-**	**-**	**-**	**-**	**(2,000)**	**(2,000)**
At 31 December 2013	**200,031**	**33,759**	**1,486**	**5,066**	**-**	**65,505**	**305,847**
At 31 December 2013 (US$'000)	**519,562**	**87,685**	**3,860**	**13,158**	**-**	**170,143**	**794,408**
At 31 December 2012 (US$'000) (refer note 3)	519,562	84,865	3,211	4,248	-	152,109	763,995

The accompanying notes on pages 59 to 103 form an integral part of these financial statements.

2012 US$'000	2013 US$'000		Note	2013 RO'000	2012 RO'000
		Cash flows from operating activities			
18,627	**34,104**	Profit before tax		**13,130**	7,171
		Adjustments for:			
25,204	**9,145**	- non-cash items included in profit before tax		**3,521**	9,703
(138,360)	**891,086**	- change in operating assets		**343,068**	(53,269)
263,696	**(525,703)**	- change in operating liabilities		**(202,396)**	101,524
(7,322)	**-**	- income tax paid		**-**	(2,819)
161,845	**408,632**	Net cash generated from operating activities		**157,323**	62,310
		Cash flows used in investing activities			
(11,730,513)	**(17,893,616)**	Purchase of financial investments		**(6,889,042)**	(4,516,247)
11,209,865	**17,533,456**	Proceeds from maturity of financial investments		**6,750,381**	4,315,798
(5,844)	**(11,883)**	Purchase of property, plant and equipment		**(4,575)**	(2,250)
638,396	**-**	Cash and cash equivalents acquired as a result of merger (net)		**-**	245,782
(476)	**(535)**	Effect of currency translation		**(206)**	(183)
111,428	**(372,578)**	Net cash (used in) / generated from investing activities		**(143,442)**	42,900
		Cash flows from financing activities			
-	**(5,195)**	Dividend paid		**(2,000)**	-
53,379	**-**	Additional capital contribution		**-**	20,551
53,379	**(5,195)**	Net cash (used in) / generated from financing activities		**(2,000)**	20,551
326,652	**30,859**	**Net change in cash and cash equivalents**		**11,881**	125,761
302,810	**629,462**	Cash and cash equivalents at the beginning of the year		**242,343**	116,582
629,462	**660,321**	Cash and cash equivalents at the end of the year	**26**	**254,224**	242,343

The accompanying notes on pages 59 to 103 form an integral part of these financial statements.

Notes to the Financial Statements
As of 31 December 2013

1 Legal status and principal activities

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

As further explained in note 3, on 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. Following the merger, HSBC Bank Middle East Limited ('HBME') holds 51% of the shares in the combined entity. The ultimate parent company of HBME is HSBC Holdings plc.

2 Summary of significant accounting polices

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 2013 were 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) shown 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.

2 Summary of significant accounting polices (continued)

2.1 Basis of preparation (continued)

(c) Comparative information

These financial statements include comparative information as required by IFRS.

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

(d) 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 profit or loss and other 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 profit or loss.

(e) Use of estimates and assumptions

The preparation of the financial statements in confirmation 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 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.

(f) Accounting developments

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

Amendments issued by the IASB

Standards applicable in 2013

On 1 January 2013, the Bank adopted the following significant new standards and amendments to standards for which the financial effect is insignificant to these financial statements:

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and amendments to IFRS 10, IFRS 11 and IFRS 12 'Transition Guidance'. IFRSs 10 and 11 are required to be applied retrospectively.

2 Summary of significant accounting polices (continued)

2.1 Basis of preparation (continued)

(f) Accounting developments (continued)

Amendments issued by the IASB (continued)

Standards applicable in 2013 (continued)

Under IFRS 10, there is one approach for determining consolidation for all entities, based on the concepts of power, variability of returns and their linkage. This replaces the approach which applied to previous financial statements which emphasised legal control or exposure to risks and rewards, depending on the nature of the entity. The Bank controls and consequently consolidates an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

IFRS 11 places more focus on the investors' rights and obligations than on the structure of the arrangement when determining the type of joint arrangement with which the Bank is involved, unlike the previous approach, and introduces the concept of a joint operation.

IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including for unconsolidated structured entities.

IFRS 13 'Fair Value Measurement' establishes a single framework for measuring fair value and introduces new requirements for disclosure of fair value measurements. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires disclosure of the effect or potential effects of netting arrangements on an entity's financial position. The amendment requires disclosure of recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The amendments have been applied retrospectively.

Amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). IAS 19 revised is required to be applied retrospectively. IAS 19 revised replaces the interest cost on the plan liability and expected return on plan assets with a finance cost comprising the net interest on the net defined benefit liability or asset. This finance cost is determined by applying to the net defined benefit liability or asset the same discount rate used to measure the defined benefit obligation. The difference between the actual return on plan assets and the return included in the finance cost component reflected in the statement of profit or loss is presented in other comprehensive income. The effect of this change is to increase or decrease the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate.

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

In November 2012, the IASB issued proposed amendments to IFRS 9 in respect of classification and measurement. Since the final requirements for classification and measurement are uncertain, it remains impracticable to quantify the effect of IFRS 9 as at the date of the publication of these financial statements.

The second phase in the IASB's project to replace IAS 39 will address the impairment of financial assets. It is proposed to replace the 'incurred loss' approach to the impairment of financial assets carried at amortised cost in IAS 39 with an expected credit loss approach, and require that the expected credit loss approach be applied to other categories of financial instrument, including loan commitment and financial guarantees. The final requirements for impairment of financial assets are expected to be published in 2014.

2 Summary of significant accounting polices (continued)

2.1 Basis of preparation (continued)

(f) Accounting developments (continued)

Amendments issued by the IASB (continued)

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be considered separately. In November 2013, the IASB issued amendments to IFRS 9 in respect of the general hedge accounting requirements, transition and effective date. As a result of these amendments, it is confirmed that all phases of IFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. This effective date has not yet been set by the IASB but is not expected to be earlier than 1 January 2017. The revised hedge accounting requirements are applied prospectively and the Bank is currently assessing the impact they may have on the financial statements.

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

Based on the assessment performed to date, we do not expect the amendments to IAS 32 to have a material effect on the Bank's 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 profit or loss.

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 of a foreign operation, exchange differences relating thereto and previously recognised in other comprehensive income are reclassified to the income statement 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. 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 profit or loss and other 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 and deposits from customers.

2 Summary of significant accounting polices (continued)

2.3 Financial instruments (continued)

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 profit or loss and other 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.

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 hold 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 profit or loss. 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 Summary of significant accounting polices (continued)

2.3 Financial instruments (continued)

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.

(i) 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 Statement of profit or loss and other comprehensive income in 'Available-for-sale investments – fair value reserve until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the statement of 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 profit or loss and other 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. 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 the statement of profit or loss and other comprehensive income, is removed from other comprehensive income and recognised in the statement of profit or loss and other comprehensive income.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provisions' in the statement of profit or loss and impairment losses for available-for-sale equity securities are recognised within 'Gains or losses from financial investments' in the statement of profit or loss. 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 reorganisation, 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.

2 Summary of significant accounting polices (continued)

2.3 Financial instruments (continued)

2.3.3 Available-for-sale financial assets (continued)

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 profit or loss 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. 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 profit or loss, the impairment loss is reversed through the statement of profit or loss, . otherwise, any increase in fair value is recognized 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 profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the statement of profit or loss 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 an identical instrument. 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 instrument 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 contract 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 Summary of significant accounting polices (continued)

2.4 Derivative financial instruments

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.

2.5 Cash and cash equivalents

Cash and cash equivalents consist of cash balances on 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 classified as held to maturity assets.

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, expire 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 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 profit or loss.

2 Summary of significant accounting polices (continued)

2.10 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. 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	-	Over the unexpired term of the lease
Motor vehicles	-	5 years
Equipment, furniture and fixtures	-	3 – 10 years
Computer software and equipment	-	3 – 5 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. Repairs and renewals are charged to the statement of profit or loss 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 profit or loss 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 to banks' or 'Loans and advances to customers', as appropriate. 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, plant 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, plant 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 HSBC is the lessee, leased assets are not recognised on the balance sheet. 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 'General and administrative expenses' and 'Other operating income', respectively.

2 Summary of significant accounting polices (continued)

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, generally on a straight-line basis, over their useful lives as follows:

Core deposit intangible	7 years
Customer relationship	7 years

Amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.13 Provisions

A provision is recognised in the statement of financial position when the Bank has a 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 recognized as finance 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 profit or loss 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

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

2 Summary of significant accounting polices (continued)

2.15.2 Non-interest income (continued)

- 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 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.

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 profit or loss 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 profit or loss 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.

2 Summary of significant accounting polices (continued)

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 corporate assets (primarily the Bank's headquarters), head office expenses, and income tax assets and liabilities.

3 Business combination

There were no acquisitions in 2013.

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

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

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

The integration cost of RO13.9m including transaction costs of RO0.39m have been expensed in 2012 and are included in operating expenses (note 6).

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

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

3 Business combination (continued)

The following table, prepared for illustrative purposes only, gives an indication of what the results for the year ended 31 December 2012 may have been had the merger occurred on 1 January 2012 and of OIB for the period from 1 January 2012 to the date of merger:

	Period 1 January 2012 to 2 June 2012 RO'000	Period 3 June 2012 to 31 December 2012 RO'000	Combined RO'000
OIB:			
- Operating income	17,071	23,090	40,161
- Operating expense	(12,369)	(18,482)	(30,851)
- Loan impairment charges	(7,510)	(216)	(7,726)
Profit before integration cost			**1,584**
HBME Oman branches:			
- Operating income	14,555	22,884	37,439
- Operating expense	(7,459)	(8,939)	(16,398)
- Loan impairment charges	(612)	(3,796)	(4,408)
Profit before integration cost			**16,633**
Combined profit before integration cost			**18,217**
Integration cost			**(13,854)**
Profit before tax			**4,363**
Tax			**(1,745)**
Profit for the year			**2,618**
Add: OIB net loss after tax for the period 1 January to 2 June 2012 reported under retained earnings			**3,178**
Profit for the year as reported in the statement of profit or loss			**5,796**

4 Other operating income

	2013	2012
	RO'000	RO'000
Profit on sale of property and equipment	3	3
Negative goodwill (note 3)	-	1,238
Gain on sale of Syndicated loans	1,013	-
Gain on sale of Merchant Acquiring business	704	-
Other income	140	178
	1,860	1,419

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

	2013	2012
	RO'000	RO'000
Provided during the year – general (note 11)	-	(662)
Provided during the year – specific (note 11)	(6,874)	(13,193)
Provisions released / written back (note 11)	6,066	688
Adjustments as a result of fair value unwind	231	5,704
Reserved interest released (note 11)	1,132	411
Written-off loans recovered	1,806	2,589
Bad debts directly written off to statement of profit or loss	(123)	(161)
	2,238	(4,624)

6 Operating expenses

	2013	2012
	RO'000	RO'000
Employee compensation and benefits	(21,468)	(20,197)
Depreciation and impairment of property and equipment	(3,474)	(4,704)
Marketing and advertising*	(4,010)	(1,520)
Premises and equipment	(5,261)	(5,844)
Communications	(1,064)	(1,034)
Insurance	(1,321)	(669)
Head office expenses	(1,041)	(240)
Other administrative expenses	(17,916)	(13,193)
	(55,555)	(47,401)

*Marketing and advertising expenses include the RO2.2m of "Mandoos Prize" draw expenses which was previously reported as interest expense of RO0.2m up until March 2013 (2012: RO0.9m).

7 Taxation

	2013 RO'000	2012 RO'000
Statement of profit or loss:		
Current year	**(1,525)**	(1,012)
Prior years	**(221)**	61
Deferred tax	**(521)**	(424)
	(2,267)	(1,375)

	2013 RO'000	2012 RO'000
Current liability:		
Current year	**1,525**	617
Prior years	**2,630**	1,797
	4,155	2,414

	2013 RO'000	2012 RO'000
Deferred tax asset:		
1 January	**4,515**	1,103
Transfer in as a result of Business combination	**-**	3,868
Movement during the year	**(556)**	(456)
	3,959	4,515

	2013 RO'000	2012 RO'000
Deferred tax liability:		
1 January	**721**	-
Currency translation effect	**4**	-
Transfer in as a result of Business combination	**-**	533
Movement during the year	**512**	188
	1,237	721

Income tax has been assessed for all years up to 2008 for HSBC Oman Branches. The Tax Authorities have assessed the tax returns of OIB including and up to the tax years 2009. The Bank has lodged appeals against the tax assessments of OIB for the years 2003 to 2006 with the Commercial Courts. The Bank is in the process of filling an objection with the Tax Authorities against the tax assessments of OIB for the tax years 2007 to 2009. All subsequent years are subject to agreement with the Tax Authorities.

Income tax for the Indian operations has been agreed for all years up to 2008; all subsequent years are subject to agreement by the India Tax Authorities.

Income tax for the Pakistan operations has been assessed up to the year 2002. The Bank has lodged an appeal against the assessments for the years 1996 to 2002.

The tax rate applicable to the Bank in Oman is 12% (2012 : 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 17.3% (2012: 19.2 %).

The difference between the applicable tax rates of 12% and the effective tax rate of 17.3% arises mainly due to prior charges on certain disallowances and the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. 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% (2012: 12%).

8 Amortisation and impairment of intangible assets

	2013	2012
	RO'000	RO'000
This represents amortisation of intangible assets as result of business combination (refer note 3) accounted for as follows :		
Core deposits	**(1,758)**	(1,026)
Customer relationships	**(527)**	(307)
	(2,285)	(1,333)

9 a) Earnings per share

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:

	2013	2012
Weighted average number of shares in issue ('000)	**2,000,312**	1,571,065
Profit for the year (RO'000)	**10,863**	5,796
Earnings per share (RO)	**0.005**	0.004

b) Net asset per share

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

	2013	2012
Number of shares in issue ('000)	**2,000,312**	2,000,312
Net assets (RO'000)	**305,847**	294,137
Net asset per share (RO)	**0.153**	0.147

10 Due from banks

	2013	2012
	RO'000	RO'000
Placements	**134,218**	171,082
Others	**60,093**	12,776
	194,311	183,858

11 Loans and advances to customers

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

	2013	2012
	RO'000	RO'000
Overdrafts	**87,992**	90,702
Loans	**898,534**	1,101,998
Bills discounted/purchased	**24,302**	30,063
Gross loans and advances	**1,010,828**	1,222,763
Provision for loan impairment – specific	**(14,072)**	(14,625)
Provision for loan impairment – general	**(4,246)**	(6,289)
Reserved interest	**(12,038)**	(7,406)
Loans and advances (net)	**980,472**	1,194,443

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

	2013	2012
	RO'000	RO'000
Overdrafts	**87,992**	90,702
Loans	**969,181**	1,172,645
Bills discounted/purchased	**24,302**	30,063
Gross loans and advances	**1,081,475**	1,293,410
Provision for loan impairment – specific	**(37,049)**	(37,602)
Provision for loan impairment – general	**(14,237)**	(16,280)
Reserved interest	**(49,717)**	(45,085)
Loans and advances (net)	**980,472**	1,194,443

Provision for loan impairment and reserved interest:

The movement on provision for loan impairment for the year ended 31 December 2013 is analysed in the table below:

	Specific Provision RO'000	**General Provision RO'000**	**Total Provision RO'000**
Balance at 1 January 2013	**37,602**	**16,280**	**53,882**
Currency translation effect on opening balance	**(69)**	**-**	**(69)**
Provided during the year (note 5)	**6,874**	**-**	**6,874**
Released during the year:			
- Due to recoveries/write back (note 5)	**(4,023)**	**(2,043)**	**(6,066)**
Written off during the year	**(3,335)**	**-**	**(3,335)**
Balance at 31 December 2013	**37,049**	**14,237**	**51,286**

11 Loans and advances to customers (continued)

The movement on provision for loan impairment for the year ended 31 December 2012 is analysed in the table below:

	Specific Provision	General Provision	Total Provision
	RO'000	RO'000	RO'000
Balance at 1 January 2012	3,445	5,644	9,089
Transfers as result of business combination	33,402	9,993	43,395
Currency translation effect on opening balance	(20)	(2)	(22)
Provided during the year (note 5)	13,193	662	13,855
Released during the year:			
- Due to recoveries/write back (note 5)	(671)	(17)	(688)
Written off during the year	(11,747)	-	(11,747)
Balance at 31 December 2012	37,602	16,280	53,882

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

	2013	2012
	RO'000	RO'000
Balance at the beginning of the year	**45,085**	1,586
Transfers as result of business combination	**-**	47,102
Currency translation effect in opening balance	**(6)**	(1)
Reserved during the year	**11,184**	7,441
Released to the statement of profit or loss in loan impairments–credit (note 5)	**(1,132)**	(411)
Written-off during the year	**(5,414)**	(10,632)
Balance at end of the year	**49,717**	45,085

12 Financial investments

	2013	2012
	RO'000	RO'000
Available-for-sale	**823,311**	680,672
	823,311	680,672

12 Financial investments (continued)

Financial investments details are provided as follows

	Fair value 31 December 2013 RO'000	Fair value 31 December 2012 RO'000	Carrying value 31 December 2013 RO'000	Carrying value 31 December 2012 RO'000	Cost 31 December 2013 RO'000	Cost 31 December 2012 RO'000
Marketable securities – MSM						
Finance	**2,245**	2,092	**2,245**	2,092	**1,911**	1,911
Insurance	**355**	377	**355**	377	**340**	340
Services	**415**	405	**415**	405	**361**	361
Industrial	**42**	44	**42**	44	**54**	54
Government bonds	**68,086**	4 7,998	**68,086**	47,998	**67,449**	47,219
Other bonds	**-**	220	**-**	220	**-**	220
	71,143	51,136	**71,143**	51,136	**70,115**	50,105
Marketable securities – Foreign by Sector						
Government securities	**2,271**	3,675	**2,271**	3,675	**2,276**	3,675
Quoted foreign shares	**4,631**	3 111	**4,631**	3 111	**2,407**	2,417
	6,902	6,786	**6,902**	6,786	**4,683**	6,092
Unquoted and other investments						
Certificates of deposits			**730,039**	610,000	**730,039**	610,000
Unquoted Omani shares			**1,010**	1,010	**1,010**	1,010
Investment fund units			**14,217**	11,740	**11,717**	11,696
			745,266	622,750	**742,766**	622,706
Total			**823,311**	680,672	**817,564**	678,903

Details of classification of investments are given below:

Details of AFS investments are as follows

	2013 RO'000	2012 RO'000
Cost of:		
Quoted - Foreign Government securities	**2,276**	3,675
Quoted - Equity and other securities	**72,522**	52, 522
Unquoted investments	**742,766**	622,706
	817,564	678,903
Revaluation gain of:		
Quoted - Equity and other securities	**5,747**	1,769
	823,311	680,672

At 31 December 2013, available-for-sale investments in the amount of RO9.9m (2012: RO7.77m) are measured using Level I, RO812.4m (2012: RO671.89m) are measured using Level II and RO1.01m (2012: RO1.01m) are stated at cost.

13 Other assets

	2013 RO'000	2012 RO'000
Derivatives - positive mark-to-market	**1,224**	2,108
Prepayments and accrued income	**1,507**	960
Deferred tax asset (note 7)	**3,959**	4,515
Acceptances	**51,986**	136,646
Others	**3,042**	44,348
	61,718	188,577

14 Intangible assets (refer note 3)

	2013 RO'000	2012 RO'000
Customer relationships	**3,691**	3,691
Core deposits	**12,306**	12,306
	15,997	15,997
Less: amortised	**(3,618)**	(1,333)
	12,379	14,664

15 Property and equipment

The movement in property and equipment during the year 2013 is as follows:

	Freehold land and buildings RO'000	Leasehold property and improvements RO'000	Equipment, furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost / Valuation							
1 January 2013	33,383	3,978	8,631	845	17,010	34	63,881
Currency translation effect on opening balances	(545)	(4)	(25)	(5)	(50)	(2)	(631)
Transfers	-	-	436	-	(422)	(14)	-
Additions	1,818	94	660	95	1,908	-	4,575
Disposals/written off	-	(17)	(51)	(14)	(1,339)	-	(1,421)
31 December 2013	34,656	4,051	9,651	921	17,107	18	66,404
Depreciation							
1 January 2013	8,128	3,426	7,284	743	14,238	-	33,819
Currency translation effect on opening balances	(187)	(3)	(22)	(4)	(36)	-	(252)
Charge for the year	550	183	466	46	1,358	-	2,603
Disposals	-	(17)	(44)	(14)	(759)	-	(834)
31 December 2013	8,491	3,589	7,684	771	14,801	-	35,336
Net book value							
31 December 2013	26,165	462	1,967	150	2,306	18	31,068

15 Property and equipment (continued)

The movement in property and equipment for the year 2012 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 / Valuation							
1 January 2012	3,346	1,260	1,893	81	1,121	-	7,701
Currency translation effect on opening balances	95	(2)	2	-	(1)	(2)	92
Transfer in as result of business combinations	29,942	3,032	8,350	954	14,280	4,181	60,739
Transfers from capital work in progress	-	-	-	-	670	(670)	-
Additions	-	92	382	45	1,731	-	2,250
Disposals / written off	-	(404)	(1,996)	(235)	(791)	(3,475)	(6,901)
31 December 2012	33,383	3,978	8,631	845	17,010	34	63,881
Depreciation							
1 January 2012	2,563	1,091	1,662	68	859	-	6,243
Currency translation effect on opening balances	25	(2)	1	(1)	3	-	26
Transfer in as result of business combination	5,217	2,616	7,268	882	13,007	-	28,990
Charge for the year	323	126	311	31	565	-	1,356
Disposals	-	(405)	(1,958)	(237)	(196)	-	(2,796)
31 December 2012	8,128	3,426	7,284	743	14,238	-	33,819
Net book value							
31 December 2012	25,255	552	1,347	102	2,772	34	30,062

16 Due to banks

	2013	2012
	RO'000	RO'000
Bank borrowings	**3,296**	1,747
Others	**38,534**	44,423
	41,830	46,170

17 Deposits from customers

	2013 RO'000	2012 RO'000
Current and call	**1,123,324**	1,052,671
Savings	**430,565**	428,009
Time deposits	**232,754**	363,667
Others	**6,060**	7,220
	1,792,703	1,851,567

18 Other liabilities

	2013 RO'000	2012 RO'000
Derivatives - negative mark-to-market	**1,563**	3,221
Deferred tax liability (note 7)	**1,237**	721
Retirement benefit liability	**603**	1,078
Acceptances	**51,986**	136,646
Tax liability (note 7)	**4,155**	2,414
Accruals and deferred income	**1,422**	2,920
Obligations under finance leases	**1,031**	-
Others	**18,511**	73,942
	80,508	220,942

As per the directives of the Capital Market Authority (CMA) the amount of unpaid dividend which is outstanding for more than six months is required to be transferred to the Investors' Trust Fund established by the CMA. The unpaid dividend amounting to RO15,310 (2012: RO40,163) outstanding for more than six months has been transferred to the Investors' Trust Fund during October 2013.

19 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid ordinary shares of RO0.100 each (31 December 2012: 2,000,312,790 ordinary shares of RO0.100 each) against the authorised ordinary share capital of 7,500 million shares of RO0.100 each.

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

Reconciliation of share capital	**Number of shares**		**Share capital**	
	2013	2012	**2013 RO'000**	2012 RO'000
In issue at 1 January	**2,000,312,790**	968,052,610	**200,031**	96,805
Bonus shares issued during the year	**-**	12,100,657	**-**	1,210
Issued in business combination	**-**	1,020,159,523	**-**	102,016
As at 31 December	**2,000,312,790**	2,000,312,790	**200,031**	200,031

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:

	2013	2012
	Number of shares	Number of shares
HSBC Bank Middle East Limited	**1,020,159,523**	1 ,020,159,523

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. In this respect an amount of RO387,000 has been transferred to statutory reserve during the year ended 31 December 2013 (2012: RO295,000).

(c) Merger reserve

The merger reserve arises from the application of the principles of reverse acquisition accounting for the business combination of HSBC Bank Middle East Limited, Oman branches and OIB in June 2012. In accordance with IFRS the acquisition has been accounted for as a reverse acquisition as explained in note 3.

(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

	2013	2012
	RO'000	RO'000
Letters of credit	**93,046**	86,782
Guarantees and performance bonds	**273,706**	334,677
Forward forex contracts – sales	**117,599**	131,533
Forward forex contracts – purchases	**119,423**	133,100
Currency swaps	**39,377**	136,479
Options	**-**	3,594
Interest rate swaps	**18,557**	21,965
Undrawn unconditionally cancellable commitments	**747,239**	667,840
Undrawn unconditionally non-cancellable commitments	**38,544**	19,717
	1,447,491	1,535,687

21 Contingent liabilities, commitments and derivatives (continued)

(b) Legal case

As at 31 December 2013, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and it therefore does not consider it necessary to make any additional provisions in this regard.

(c) Capital and investment commitments

At 31 December 2013, there were capital and investment commitments amounting to RO1.3m (2012: RO0.49 m).

(d) Derivatives

In the ordinary course of business the Bank enters into various types of transactions that 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 and currency swaps are measured using Level II of fair value hierarchy.

31 December 2013:

	Positive fair value	**Negative fair value**	**Total notional amount**
	RO'000	**RO'000**	**RO'000**
Derivatives held for trading:			
Forward foreign exchange contracts	**782**	**584**	**237,022**
Currency swaps	**-**	**510**	**39,377**
Interest rate swaps	**442**	**469**	**18,557**
	1,224	**1,563**	**294,956**

31 December 2012:

	Positive fair value	Negative fair value	Notional amount Total
	RO'000	RO'000	RO'000
Derivatives held for trading:			
Forward foreign exchange contracts	980	720	268,227
Currency swaps	-	1,373	136,479
Interest rate swaps	1,128	1,128	21,965
	2,108	3,221	426,671

21 Contingent liabilities, commitments and derivatives (continued)

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 the 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.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified year. The bank transacts only in currency options for its customers.

(e) Lease commitments

Operating lease commitments

At the 31 December 2013 annual commitments under non-cancellable operating leases were RO1.8m (2012: RO0.4m).

Finance lease commitments

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

Lease commitments:	**At 31 December 2013**			At 31 December 2012		
	Total future minimum payments	**Future interest charges**	**Present value of finance lease commitments**	Total future minimum payments	Future interest charges	Present value of finance lease commitments
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
– No later than one year	**317**	**(130)**	**187**	-	-	-
– Later than one year and up to five years	**1,131**	**(287)**	**844**	-	-	-
	1,448	**(417)**	**1,031**	-	-	-

22 Analysis of significant assets and liabilities

22.1 Nature of customer advances

	2013	2012
Gross	**RO'000**	RO'000
Overdrafts	**87,992**	90,702
Credit card	**11,727**	13,067
Loans	**868,680**	994,848
Clean import loans	**88,774**	164,730
Other bills	**24,302**	30,063
	1,081,475	1,293,410

23 Maturities of assets and liabilities

Maturity analysis of assets and liabilities as per CBO circular BM 955 is as follows:

At 31 December 2013	On demand or within 3 months RO'000	3 to 12 months RO'000	Over 1 year RO'000	Total RO'000
Assets				
Cash and balances with central banks	**58,778**	**17,627**	**41,224**	**117,629**
Due from banks	**194,311**	**-**	**-**	**194,311**
Loans and advances to customers - net	**230,901**	**83,727**	**665,844**	**980,472**
Financial investments	**731,869**	**24,100**	**67,342**	**823,311**
Other assets	**39,931**	**21,760**	**27**	**61,718**
Intangible assets	**571**	**1,714**	**10,094**	**12,379**
Property and equipment	**-**	**-**	**31,068**	**31,068**
Total assets	**1,256,361**	**148,928**	**815,599**	**2,220,888**
Liabilities and equity				
Due to banks	**41,830**	**-**	**-**	**41,830**
Deposits from customers	**567,331**	**503,518**	**721,854**	**1,792,703**
Other liabilities	**58,499**	**21,987**	**22**	**80,508**
Equity	**-**	**11,774**	**294,073**	**305,847**
Total liabilities and equity	**667,660**	**537,279**	**1,015,949**	**2,220,888**

At 31 December 2012	On demand or within 3 months RO'000	3 to 2 months RO'000	Over 1 year RO'000	Total RO'000
Assets				
Cash and balances with central banks	72,895	19,650	27,995	120,540
Due from banks	182,315	1,543	-	183,858
Loans and advances to customers - net	235,182	118,136	841,125	1,194,443
Financial investments	611,466	6,381	62,825	680,672
Other assets	182,858	298	5,421	188,577
Intangible assets	-	-	14,664	14,664
Property and equipment	-	-	30,062	30,062
Total assets	1,284,716	146,008	982,092	2,412,816
Liabilities and equity				
Due to banks	46,170	-	-	46,170
Deposits from customers	566,798	514,377	770,392	1,851,567
Other liabilities	210,532	5,857	4,553	220,942
Equity	-	6,101	288,036	294,137
Liabilities and equity	823,500	526,335	1,062,981	2,412,816

24 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
At 31 December 2013		RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Assets						
Cash and balances with central banks	-	-	-	-	117,629	117,629
Due from banks	0.44%	134,825	-	-	59,486	194,311
Loans and advances to customers – net	6.35%	257,305	84,167	639,000	-	980,472
Financial investments	0.38%	731,868	24,100	44,428	22,915	823,311
Other assets	-	-	-	-	61,718	61,718
Intangible assets	-	-	-	-	12,379	12,379
Property and equipment	-	-	-	-	31,068	31,068
Total assets		1,123,998	108,267	683,428	305,194	2,220,888
Liabilities and equity						
Due to banks	-	3,451	-	-	38,379	41,830
Deposits from customers	0.38%	295,031	61,354	4,323	1,431,995	1,792,703
Other liabilities	-	-	-	-	80,508	80,508
Equity	-	-	-	-	305,847	305,847
Total liabilities and equity		298,482	61,354	4,323	1,856,729	2,220,888
Interest sensitivity gap:						
- net		825,516	46,913	679,105	-	-
- cumulative		825,516	872,429	1,551,535	-	

Sensitivity analysis – equity price risk

Quoted investments of the bank are listed on Muscat Securities Market ("MSM") and Foreign Government securities. For such investments classified as available for sale investments, a 5% increase in MSM 30 index would have increased other comprehensive income by RO152, 816 (2012:RO145,915); an equal change in the opposite direction would have decreased other comprehensive income by RO152,816 (2012: RO145,915).

24 Interest rate sensitivity gap (continued)

At 31 December 2012	Effective average interest rate%	within 3 months RO' 000	3 to 12 months RO' 000	Over 1 year RO' 000	Not interest sensitive RO' 000	Total RO' 000
Assets						
Cash and balances with central banks	-	-	-	-	120,540	120,540
Due from banks	0.62%	177,651	1,543	-	4,664	183,858
Loans and advances to customers – net	4.62%	235,182	118,136	841,125	-	1,194,443
Financial investments	0.42%	611,466	6,381	62,825	-	680,672
Other assets	-	2,000	-	-	186,577	188,577
Intangible assets	-	-	-	-	14,664	14,664
Property and equipment	-	-	-	-	30,062	30,062
Total assets		1,026,299	126,060	903,950	356,507	2,412,816
Liabilities and equity						
Due to banks	-	2,507	-	-	43,663	46,170
Deposits from customers	0.60%	619,948	170,494	9,682	1,051,443	1,851,567
Other liabilities	-	3,220	-	-	217,722	220,942
Equity	-	-	-	-	294,137	294,137
Total liabilities and equity		625,675	170,494	9,682	1,606,965	2,412,816
Interest sensitivity gap:						
- net		400,624	(44,434)	894,268		
- cumulative		400,624	356,190	1,250,458		

25 Financial assets and liabilities

25.1 Fair value information

Based on the valuation methodology outlined in note 2.3.4, the fair values of all financial instruments at 31 December 2013 were not significantly different to their net book values at 31 December 2013.

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

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	Using observ-able inputs	Financial instruments	
	Level 1	Level 2	carried at cost	Total
Recurring fair value measurements	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 31 December 2013				
Assets				
Derivatives	**-**	**1,224**	**-**	**1,224**
Financial investments: available-for-sale	**9,891**	**812,410**	**1,010**	**823,311**
Liabilities	**-**	**-**	**-**	**-**
Derivatives	**-**	**1,563**	**-**	**1,563**
At 31 December 2012				
Assets				
Derivatives	-	2,108	-	2,108
Financial investments: available-for-sale	7,771	671,891	1,010	680,672
Liabilities				
Derivatives	-	3,221	-	3,221

Fair values of financial instruments not carried at fair value

	Valuation techniques				
	Quoted market price	Using observable inputs	With significant unobservable inputs	Total fair value	Carrying amount
	Level 1	Level 2	Level 3		
Assets and liabilities not held for sale	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 31 December 2013					
Assets					
Cash and balances with central bank	**-**	**117,629**	**-**	**117,629**	**117,629**
Due from banks	**-**	**194,311**	**-**	**194,311**	**194,311**
Loans and advances to customers - net	**-**	**976,622**	**-**	**976,622**	**980,472**
Liabilities					
Due to banks	**-**	**41,830**	**-**	**41,830**	**41,830**
Deposit from customers	**-**	**1,792,681**	**-**	**1,792,681**	**1,792,703**

25 Financial assets and liabilities (continued)

25.1 Fair value information (continued)

	Fair value	Carrying amount
Assets and liabilities not held for sale	RO'000	RO'000
At 31 December 2012		
Assets		
Cash and balances with central bank	120,540	120,540
Due from banks	183,892	183,858
Loans and advances to customers - net	1,193,372	1,194,443
Liabilities		
Due to banks	46,203	46,170
Deposit from customers	1,851,479	1,851,567

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.

Investments carried at cost and derivatives

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

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

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

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.

26 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:

	2013	2012
	RO'000	RO'000
Statement of financial position items comprise:		
Cash and balances with central banks	**117,629**	120,540
Due from other banks	**194,311**	183,858
Due to banks	**(41,830)**	(46,170)
	270,110	258,228
Adjustment for items maturing after three months from date of acquisition and restricted balances	**(15,886)**	(15,885)
	254,224	242,343
Cash and cash equivalents comprise:		
Cash and balances with central banks	**101,743**	104,655
Due from other banks	**194,311**	183,858
Due to banks	**(41,830)**	(46,170)
	254,224	242,343

27 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:

	Significant shareholder - HSBC and related group entities	**Directors**	**Key management personnel**	**Others**	**Total**
As at 31 December 2013	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Loans and advances	**-**	**18**	**390**	**10,421**	**10,829**
Current, deposit and other accounts	**-**	**59**		**23,093**	**23,152**
Letters of credit and guarantees	**-**	**-**	**-**	**9,612**	**9,612**
Provision for loans and advances	**-**		**-**		
Due from banks	**119,026**		**-**		**119,026**
Due to banks	**16,284**		**-**		**16,284**
For the year ended 31 December 2013					
Net Interest Income	**472**	**1**	**-**	**490**	**963**
Net fee income	**211**	**1**	**-**	**189**	**401**
Other operating expenses:	**(11,579)**	**(21)**	**(1,599)**	**(259)**	**(13,458)**
Purchase of property and equipment	**-**	**-**	**-**	**80**	**80**

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

	Significant shareholder - HSBC and related group entities	Directors	Key management personnel	Others	Total
As at 31 December 2012	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	2	376	20,890	21,268
Current, deposit and other accounts	-	90	-	44,692	44,782
Letters of credit and guarantees	-	-	-	4,736	4,736
Due from banks	4,353	-	-	-	4,353
Due to banks	14,842	-	-	-	14,842
For the year ended 31 December 2012					
Net Interest Income	(86)	-	-	741	655
Net fee income	104	-	-	13	117
Other operating expenses:	(6,464)	(6)	(1,107)	(538)	(8,115)
Purchase of property and equipment	-	-	-	69	69

28 Distribution by economic sector

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

	2013	2012
	RO'000	RO'000
Personal and consumer loans	**437,010**	421,211
Corporate and commercial		
Import trade	**100,554**	178,312
Construction	**45,690**	69,317
Manufacturing	**189,221**	187,219
Wholesale and retail trade	**33,847**	35,060
Export trade	**11,622**	7,737
Electricity, gas, water, transportation and communication	**58,683**	132,384
Services	**143,502**	161,293
Mining and quarrying	**29,306**	54,065
Others	**32,040**	40,422
	644,465	865,809
Financial institutions	**-**	6,390
Total gross loans and advances	**1,081,475**	1,293,410
Provision for loan impairment - specific	**(37,049)**	(37,602)
Provision for loan impairment - general	**(14,237)**	(16,280)
Reserved interest	**(49,717)**	(45,085)
Net loans and advances	**980,472**	1,194,443
Non-performing loans	**94,668**	92,445

Specific provision for loan impairment and reserved interest represent 91.7% (2012: 89.4%) of gross non-performing loans and advances.

28 Distribution by economic sector (continued)

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

	2013	2012
	RO'000	RO'000
Personal and consumer	87	190
Import trade	63,408	61,619
Construction	59,749	63,713
Financial institutions	-	2,066
Manufacturing	12,302	18,340
Wholesale and retail trade	19,097	21,050
Electricity, gas, water, transportation and communication	2,468	3,218
Services	108,962	123,672
Mining and quarrying	403	2,001
Others	100,276	125,590
	366,752	421,459

29 Operating Segment

The factors used to identify the bank's reporting segment 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. The products and services offered to customers are organised by global business.

- Commercial Banking ('CMB') product offerings include the provision of receivables financing services, payments and cash management, international trade finance, treasury and capital markets, commercial cards, insurance, cash and derivatives in foreign exchange and rates, and online and direct banking offerings

- Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking need, consumer finance and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products and financial planning services).

- Global Banking and Markets ('GB&M') provides tailored financial solutions to government, corporate and institutional clients. The client focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; and principle investment activities.

29 **Operating segment (continued)**

Information about operating segments:

	31 December 2013			
	CMB RO' 000	RBWM RO' 000	GB&M RO' 000	Total RO' 000
Net interest income	**14,242**	**30,031**	**3,815**	**48,088**
Net fees and commission	**5,907**	**4,249**	**1,360**	**11,516**
Net trading income	**2,177**	**1,153**	**3,774**	**7,104**
Other operating income	**1,130**	**900**	**(6)**	**2,024**
Total	**23,456**	**36,333**	**8,943**	**68,732**
Profit for the year before income tax	**8,380**	**(2,562)**	**7,312**	**13,130**
Reportable segment assets	**610,638**	**438,275**	**1,021,855**	**2,070,768**
Reportable segment liabilities	**1,163,313**	**697,190**	**35,921**	**1,896,424**

	31 December 2012			
	CMB RO' 000	RBWM RO' 000	GB&M RO' 000	Total RO' 000
Net interest income	16,145	19,835	4,096	40,076
Net fees and commission	4,961	4,098	954	10,013
Net trading income	3,426	1,084	4,498	9,008
Other operating income	665	742	25	1,432
Total	25,197	25,759	9,573	60,529
Profit for the year before income tax	8,905	(9,778)	8,044	7,171
Reportable segment assets	923,302	407,757	985,070	2,316,129
Reportable segment liabilities	1,347,894	640,289	46,170	2,034,353

Reconciliation of reportable segment assets and liabilities

	2013 RO' 000	2012 RO' 000
Assets		
Total assets for reportable segments	**2,070,768**	2,316,129
Other unallocated amounts	**150,120**	96,687
Total assets	**2,220,888**	2,412,816
Liabilities		
Total liabilities for reportable segments	**1,896,424**	2,034,353
Other unallocated amounts	**18,617**	84,326
Total liabilities	**1,915,041**	2,118,679

29 Operating segment (continued)

Operating segments geographical areas

	Oman	Others	Adjustments	Total
	RO'000	RO'000	RO'000	RO'000
As at 31 December 2013				
Income from customers	**76,759**	**1,023**	**-**	**77,782**
Net segment result	**11,775**	**(912)**	**-**	**10,863**
Assets	**2,214,708**	**31,128**	**(24,948)**	**2,220,888**
Liabilities	**1,911,345**	**12,386**	**(8,690)**	**1,915,041**
Capital expenditure	**4,575**	**-**	**-**	**4,575**
Depreciation and impairment of property and equipment	**3,064**	**410**	**-**	**3,474**
Provision for loan impairment (net of fair value unwind)	**(6,629)**	**(14)**	**-**	**(6,643)**

	Oman	Others	Adjustments	Total
	RO'000	RO'000	RO'000	RO'000
As at 31 December 2012				
Income from customers	68,816	1,152	-	69,968
Net segment result	6,101	(305)	-	5,796
Assets	2,404,244	34,738	(26,166)	2,412,816
Liabilities	2,113,236	14,543	(9,100)	2,118,679
Capital expenditure	2,236	14	-	2,250
Depreciation and impairment of property and equipment	4,447	257	-	4,704
Provision for loan impairment	(7,340)	(811)	-	(8,151)

30 Dividend per share

The Board of Directors at the forthcoming Ordinary Annual General meeting will propose a cash dividend of RO0.0038 per share of nominal value of RO0.100 each amounting to RO7.6m for the year 2013. (2012: cash dividend of RO0.001 per share of nominal value of RO0.100 each amounting to RO2.0m). 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 2014.

31 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 control risk.

31 Risk management (continued)

31.1 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 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 convened, 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.

31.2 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;
- promptly identify business decisions needed to mitigate risk.

31.3 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.

Credit risk management

The Wholesale (corporate) and Retail Risk functions report to the Chief Risk Officer. 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.

31 Risk management (continued)

31.3 Credit risk (continued)

- 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 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.

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, 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.

31 Risk management (continued)

31.3 Credit risk (continued)

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. The fair value of cash collateral and mortgages on unclassified loans and advances at 31 December 2013 is RO73.3m; additionally Bank had collateral security in form of financial guarantees for loans and advances.

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.

	Loans and advances		Due from other banks		Investments	
	2013	2012	**2013**	2012	**2013**	2012
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Concentration by sector:						
Sovereign	**18,059**	19,850	**-**	-	**800,396**	661,673
Corporate	**538,993**	766,836	**-**	-	**-**	-
Banks	**-**	-	**194,311**	183,858	**-**	220
Retail	**423,420**	407,757	**-**	-	**-**	-
Equity	**-**	-	**-**	-	**22,915**	18,779
Carrying amount	**980,472**	1,194,443	**194,311**	183,858	**823,311**	680,672

31 Risk management (continued)

31.3 Credit risk (continued)

Exposure to credit risk

	Loans and advances		Due from other banks		Investments	
	2013	2012	**2013**	2012	**2013**	2012
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Individually impaired	**94,668**	92,445	**-**	-	**-**	-
Allowance for impairment	**(86,766)**	(82,687)	**-**	-	**-**	-
Carrying amount	**7,902**	9,758	**-**	-	**-**	-
Past due and not impaired	**25,751**	21,471	**-**	-	**-**	-
Neither past due nor impaired	**961,056**	1,179,494	**194,311**	183,858	**823,311**	680,672
Provision for loan impairment – general	**(14,237)**	(16,280)	**-**		**-**	
Total carrying amount	**980,472**	1,194,443	**194,311**	183,858	**823,311**	680,672

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 categorized 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).

31.4 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.

31 Risk management (continued)

31.4 Liquidity and funding management (continued)

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.

Of total liabilities of RO1,915.0m at 31 December 2013, funding from customers amounted to RO1,792.7m, of which RO1,070.8m was repayable within one year. However, 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.

Assets available to meet these liabilities and to cover outstanding commitments to lend RO2,115.6m included cash and central bank balances (RO117.6m), due from banks (RO194.3m, all repayable within one year), loans to customers (RO980.4m, including RO314.6m repayable within one year) and financial investment including certificate of deposit (RO823.3m including RO755.9m repayable within one year). In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

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 group'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.

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:

	2013	2012
	RO	RO
Operational Cash Flow Projection (OCP)	**498m**	81.45m
Advances to Core Deposit Ratio (ACF Ratio)	**85.97%**	104.16%

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

31 Risk management (continued)

31.4 Liquidity and funding management (continued)

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.

31.5 Market risk management

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 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.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign currency options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. The Bank covers the market risk on such transactions by entering into offsetting arrangements.

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.

31 Risk management (continued)

31.5 Market risk management (continued)

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:

	2013	**Average**	**Maximum**	**Minimum**	2012	Average	Maximum	Minimum
	RO'000	**RO'000**	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000
Total VAR	**205**	**233**	**368**	**101**	193	140	193	80
Trading VAR	**3**	**4**	**23**	**-**	98	59	99	15

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 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 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.

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:

31 Risk management (continued)

31.5 Market risk management (continued)

	Overall exposure in RO' 000	
Currency	**2013**	2012
US Dollars	**51,252**	54,596
Pound Sterling	**30**	54
Euro	**56**	11
Japanese Yen	**5**	-
UAE Dirhams	**44**	707
Indian Rupee	**4**	1
Other currencies	**387**	115
Total exposure	**51,778**	55,484

31.6 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 companies, 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 or HSBC Group's reputation.

31.7 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. 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 addition, there is a quarterly Operational Risk and Internal Control (ORIC) meeting with the regional HSBC ORIC function.

Business units are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The operational risk management framework helps managers to fulfil these responsibilities by defining a standard risk and control assessment methodology and loss reporting policy.

31 Risk management (continued)

31.7 Operational risk management (continued)

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.

31.8 Capital management

Capital management is guided by the local regulator through CBO circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. The Banks are required to maintain minimum capital adequacy ratio in excess of 12% (2012: 12%) in accordance with CBO stipulated guidelines.

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

	2013 RO'000	2012 RO'000
Common Equity Tier 1 capital ('CET 1') / Tier 1 capital		
Ordinary share capital	**200,031**	200,031
Legal and statutory reserves	**35,245**	33,909
Retained earnings	**57,901**	56,562
Regulatory adjustments to CET1	**(16,461)**	(19,221)
CET 1/Tier 1 capital	**276,716**	271,281
Additional Tier 1 capital (AT1)	-	-
Total Tier 1 capital (T1 = CET1+AT1)	**276,716**	271,281
Tier 2 capital (T2)		
Fair value reserve for available-for-sale equity securities	**2,335**	459
Provision for loan impairment – general	**14,237**	16,280
Total	**16,572**	16,739
Total regulatory capital	**293,288**	288,020
Risk-weighted assets		
Banking book	**1,260,650**	1,637,661
Operational risk	**130,894**	78,827
Market risk	**61,302**	80,101
Total risk-weighted assets	**1,452,846**	1,796,589
Capital ratios		
CET 1 / Tier 1 capital ratio	**19.05%**	15.10%
Total capital ratio	**20.19%**	16.03%

32 Comparative balances

Certain corresponding figures for 2012 have been reclassified in order to conform to the presentation for the current year except for note 31.8.

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