HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report

30 September 2014

HSBC

Interim Condensed Financial Report - 30 September 2014

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Presentation of Information

This document comprises the Interim Condensed Financial Report – 30 September 2014 for HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.) ('the Bank'). It contains Unaudited Interim Condensed Financial Statements, together with the Board of Directors Report, the Auditor's review report and the Summary of Unaudited Results.

Board of Directors' Report for the nine months ended 30 September 2014

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's third quarter financial results for 2014.

We continued to see good progress on our strategic objectives of growing revenues, streamlining processes and procedures and implementing the highest global standards, within a framework of delivering excellence in customer service at all times. I am particularly pleased to see that the financial results for this third quarter are better than the first two quarters of 2014.

Performance Summary

Our year to date performance shows a 25.2% decrease in net profit of RO9.5m compared to RO12.7m for the same period in 2013, which had benefitted from significant recoveries and the release of a portion of the general provision following the sale, and other managed reductions, of assets.

Net operating income before loan impairment charges increased by 2.1% to RO53.0m compared to RO51.9m for the same period in 2013 due to higher net interest income, dividend income and fee income. Net interest income increased by 1.4% to RO36.5m compared to RO36.0m for the same period in 2013 due to a reduction in high cost corporate deposits and an increase in corporate assets. Total other operating income increased 3.1% to RO16.4m compared to RO15.9m for the same period in 2013.

A net charge of RO2.6m has been reported for loan impairment charges for the period against a net recovery of RO3.8m for the same period in 2013, which reflected recoveries released last year from corporate clients of RO2.1m as well as a general provision release of RO1.7m following a reduction in corporate loans and advances in 2013.

Operating expenses increased marginally to RO40.7m compared to RO40.5m for the same period in 2013.

Loans and advances, net of provisions and reserved interest as at 30 September 2014, increased by 12.0% to RO1,138.5m due to an increase in corporate assets. Customer deposits decreased by 6.6% to RO1,800.3m due to a reduction in corporate deposits.

HBON's Capital Adequacy ratio stood at 17.9% as at 30 September 2014 compared to 19.0% at 30 September 2013, representing a continuing strong capital base for future growth.

Delivering the best customer experience

In Retail Banking & Wealth Management (RBWM), we continued to see strong sales activity as a result of our more focused customer-centric way of serving customers, where more productive conversations produced double-digit growth in asset acquisition. In our key segments of Advance and Premier, this also translated into double-digit growth in customer acquisition.

We broadened our digital banking proposition further with the launch of an Arabic language public website and made enhancements to our Phone Banking service, to make it even easier and more convenient for customers to engage with the Bank.

We continued to demonstrate the strength of our local capability when coupled with our international connectivity by securing more deals with corporate customers, including key clients like Oman Oil. We were also delighted to receive two awards from Banker Middle East for "Best Corporate Account" and "Best Treasury Management".

Investing in our people and the community

We appointed more Omani nationals into senior positions in the Bank, with Nahla Al-Kharusi and Masoud Al-Ghaithi joining Corporate Banking and Compliance respectively, reinforcing our commitment to identifying and developing local talent. As a further demonstration of this, we sponsored the Careers Pavilion of the annual EduTrac Oman Education, Training and Careers Fair in September.

The Holy Month of Ramadan saw the Bank and its employees extend support to the Muscat Child Care Centre and an exhibition in Muscat Grand Mall for a group of Omani micro-business women.

Building on the partnership signed with the Oman Water Society earlier this year, a number of staff spent time in Wilayat Nakhal to help with repairs to a falaj. In addition, we were delighted that the first courses took place as part of the ‘Journey to Discovery’ programme being run with Outward Bound Oman, aimed at equipping schoolchildren with essential life skills for the future.

Conclusion

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

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

David Eldon
Chairman

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

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

Introduction
We have reviewed the unaudited condensed statement of financial position of HSBC Bank Oman SAOG ("the Bank") as at 30 September 2014, and the related unaudited condensed statements of profit or loss and other comprehensive income for the three months and nine months periods then ended, changes in equity and cash flows for the nine months period then ended, and other explanatory notes set out on pages 6 to 28 ("the interim financial information").

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

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

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

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

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

27 October 2014

KPMG

Summary of unaudited results for the nine months period ended 30 September 2014

		30 September 2014	30 September 2013	
		RO'000	RO'000	Change (%)
	Loans and advances net of provisions and reserved interest	1,138,455	1,016,191	12%
	Customer deposits	1,800,319	1,927,813	(7%)
	Net assets	308,636	307,470	0.4%
*	Net assets per share	0.154	0.154	-

		Nine months period ended 30 September 2014	Nine months period ended 30 September 2013	Change (%)
		RO'000	RO'000	
	Net interest income	36,544	35,989	2%
	Net profit for the period	9,480	12,747	(26%)
**	Earnings per share (annualised)	0.006	0.008	(25%)
***	Capital adequacy ratio (CAR)	17.94%	19.02%	(6%)

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

*** Earnings per share (annualised) has been calculated by dividing the net profit after tax attributable to ordinary shareholders for the period ended 30 September by the average number of ordinary shares in issue for the period.*

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

Unaudited interim condensed statement of profit or loss and other comprehensive income for the nine months period ended 30 September 2014

	Notes	**Quarter ended 30 September 2014 RO' 000**	Quarter ended 30 September 2013 RO' 000	**Nine months ended 30 September 2014 RO' 000**	Nine months ended 30 September 2013 RO' 000
Interest income	6	**15,265**	14,614	**41,929**	43,505
Interest expense	7	**(1,869)**	(1,752)	**(5,385)**	(7,516)
Net interest income		**13,396**	12,862	**36,544**	35,989
Net fee income		**3,362**	2,782	**9,524**	8,706
Net exchange income		**2,043**	1,800	**5,476**	5,711
Dividend income		**-**	-	**828**	164
Other operating income	8	**42**	1,291	**590**	1,342
Net operating income before loan impairment charges and other credit risk provisions		**18,843**	18,735	**52,962**	51,912
Loan impairment (charges) and other credit risk provisions - net of recoveries	9	**(1,367)**	670	**(2,602)**	3,824
Net operating income		**17,476**	19,405	**50,360**	55,736
Operating expenses	10	**(13,671)**	(14,527)	**(39,001)**	(38,805)
Amortisation and impairment of intangible assets	11	**(571)**	(571)	**(1,714)**	(1,714)
Total operating expenses		**(14,242)**	(15,098)	**(40,715)**	(40,519)
Profit before tax		**3,234**	4,307	**9,645**	15,217
Tax expense		**578**	(839)	**(165)**	(2,470)
Profit for the period		**3,812**	3,468	**9,480**	12,747
Other comprehensive income/(expense)					
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
– Fair value gain on available-for-sale investments		**1,074**	790	**1,071**	3,529
– Income taxes on fair value gain on available-for-sale investments		**(114)**	(79)	**(108)**	(303)
– Effect of currency translation		**(67)**	(162)	**(50)**	(640)
		893	549	**913**	2,586
Total comprehensive income for the period		**4,705**	4,017	**10,393**	15,333
Earnings per share - basic	12	**0.008**	0.007	**0.006**	0.008

The accompanying notes on pages 11 to 28 form an integral part of these interim condensed financial statements.

Unaudited interim condensed statement of financial position as at 30 September 2014

	Notes	At 30 September 2014 RO'000	At 30 September 2013 RO'000	Audited At 31 December 2013 RO'000
Assets				
Cash and balances with central banks		**153,892**	141,438	117,629
Due from banks		**266,529**	238,059	194,311
Loans and advances to customers - net	*13*	**1,138,455**	1,016,191	980,472
Financial investments	*14*	**561,684**	846,669	823,311
Other assets	*15*	**64,268**	66,161	61,718
Intangible assets	*16*	**10,665**	12,950	12,379
Property and equipment	*17*	**30,442**	31,373	31,068
Total assets		**2,225,935**	2,352,841	2,220,888
Liabilities and equity				
Liabilities				
Due to banks		**57,435**	32,135	41,830
Deposits from customers	*18*	**1,800,319**	1,927,813	1,792,703
Other liabilities	*19*	**59,545**	85,423	80,508
Total liabilities		**1,917,299**	2,045,371	1,915,041
Equity				
Share capital	*24*	**200,031**	200,031	200,031
Legal reserve	*25(a)*	**33,759**	32,673	33,759
Statutory reserve	*25(b)*	**1,488**	1,467	1,486
Available-for-sale fair value reserve	*25(c)*	**6,029**	4,862	5,066
Foreign exchange reserve	*25(d)*	**(281)**	-	-
Retained profits		**67,610**	68,437	65,505
Total equity		**308,636**	307,470	305,847
Total equity and liabilities		**2,225,935**	2,352,841	2,220,888
Net assets per share - RO		**0.154**	0.154	0.153
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		**98,992**	90,225	93,046
- Guarantees		**288,657**	278,361	273,706
- Others	*20*	**1,115,754**	1,034,315	1,080,739
		1,503,403	1,402,901	1,447,491

The accompanying notes on pages 11 to 28 form an integral part of these interim condensed financial statements.

The interim condensed financial statements were authorised for issue on 27 October 2014 in accordance with the resolution of the Board of Directors.

David Eldon
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the nine months period ended 30 September 2014

	Share capital	Legal reserve	Statutory reserve	Available-for-sale fair value reserve	Foreign exchange reserve	Retained profits	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2013	200,031	32,673	1,236	1,635	-	58,562	294,137
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	12,747	12,747
Other comprehensive income / (expense) for the period							
Effect of currency translation	-	-	(151)	1	-	(490)	(640)
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	3,226	-	-	3,226
Total other comprehensive income for the period	-	-	(151)	3,227	-	(490)	2,586
Total comprehensive income for the period	-	-	(151)	3,227	-	12,257	15,333
Transfer to statutory reserve	-	-	382	-	-	(382)	-
	-	-	231	3,227	-	11,875	15,333
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2012	-	-	-	-	-	(2,000)	(2,000)
At 30 September 2013	200,031	32,673	1,467	4,862	-	68,437	307,470
At 1 January 2014	**200,031**	**33,759**	**1,486**	**5,066**	**-**	**65,505**	**305,847**
Total comprehensive income for the period							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**9,480**	**9,480**
Other comprehensive income / (expenses) for the period							
Effect of currency translation	-	-	**2**	-	**(52)**	**-**	**(50)**
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	**963**	-	-	**963**
Total other comprehensive income for the period	**-**	**-**	**2**	**963**	**(52)**	**-**	**913**
Total comprehensive income for the period	-	-	**2**	**963**	**(52)**	**9,480**	**10,393**
Transfer from retained profits	-	-	**-**	**-**	**(229)**	**229**	**-**
	-	-	**2**	**963**	**(281)**	**9,709**	**10,393**
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2013	**-**	**-**	**-**	**-**	**-**	**(7,604)**	**(7,604)**
At 30 September 2014	**200,031**	**33,759**	**1,488**	**6,029**	**(281)**	**67,610**	**308,636**

The accompanying notes on pages 11 to 28 form an integral part of these interim condensed financial statements

Unaudited interim condensed statement of cash flows for the nine months period ended 30 September 2014

	Notes	Nine months ended 30 September 2014 RO' 000	Nine months ended 30 September 2013 RO' 000
Cash flows from operating activities			
Profit before tax		**9,645**	15,217
Adjustments for:			
– non-cash items included in profit before tax		**5,453**	(142)
– change in operating assets		**(163,135)**	304,492
– change in operating liabilities		**(13,131)**	(61,743)
– tax paid		**(218)**	-
Net cash (used in) / generated from operating activities		**(161,386)**	257,824
Cash flows from investing activities			
Purchase of financial investments		**(5,131,093)**	(4,878,058)
Proceeds from maturity of financial investments		**5,393,791**	4,715,287
Purchase of property and equipment	*17*	**(1,215)**	(3,746)
Proceeds from sale of property and equipment		**450**	54
Effect of currency translation		**(67)**	(228)
Net cash generated from / (used in) investing activities		**261,866**	(166,691)
Cash flows from financing activities			
Dividends paid		**(7,604)**	(2,000)
Net cash used in financing activities		**(7,604)**	(2,000)
Net change in cash and cash equivalents		**92,876**	89,133
Cash and cash equivalents at the beginning of the period		**254,224**	242,343
Cash and cash equivalents at the end of the period	*29*	**347,100**	331,476

The accompanying notes on pages 11 to 28 form an integral part of these interim condensed financial statements.

1 Legal status and activities

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

As further explained in note 5, on 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. Following the merger, HSBC Bank Middle East Limited (‘HBME’) holds 51% of the shares in the combined entity. The ultimate parent company of HBME is HSBC Holdings plc.

2 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The interim condensed financial statements of the Bank have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (‘IAS 34’) as issued by the International Accounting Standards Board (‘IASB’), the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority (‘CMA’), and the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (“CBO”).

The audited financial statements of the Bank as at and for the year ended 31 December 2013 were prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as issued by the IASB, the disclosure requirements of CMA and the applicable regulations of the CBO.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (‘IFRIC’) and its predecessor body.

Standards adopted during the period ended 30 September 2014:

On 1 January 2014, the Bank adopted 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 have been applied retrospectively and have not had a material effect on the Bank’s financial statements.

During the period ended 30 September 2014, the Bank also adopted interpretations and amendments to standards which have had an insignificant effect on these interim condensed financial statements.

(b) Presentation of information

The functional currency of the Bank is Rials Omani (“RO”), which is also the presentation currency of the financial statements of the Bank.

(c) Comparative information

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

2 Basis of preparation (continued)

(d) Use of estimates and assumptions

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

(e) Future accounting developments

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is continuing to work on projects on insurance and lease accounting which will represent significant changes to accounting requirements in the future.

Amendments issued by the IASB

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Bank is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these interim condensed financial statements.

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

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

3 Accounting policies

The accounting policies applied by the Bank in these interim condensed financial statements are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2013, except for the fair value hedge accounting policy which is defined below:

Hedge accounting

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in ‘Net interest income’.

Fair value hedge

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

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

4 Products and services

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

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

5 Business combination

On 3 June 2012, the operations of HSBC Bank Middle East Limited, Oman branches merged with OIB and the combined listed entity was renamed as HSBC Bank Oman S.A.O.G. As a result of the merger through the issue of new shares in OIB, HBME acquired 51% of the combined entity for a total consideration of RO 151.92m. As HBME acquired a controlling stake in OIB, the merger is accounted for as a reverse acquisition under IFRS 3. For accounting purposes, OIB is treated as the ‘accounting acquiree’ and HSBC Bank Middle East Limited, Oman branches are treated as the ‘accounting acquirer’.

6 Interest income

Interest bearing assets earned interest at an overall annualized rate of 2.82% for the nine months period ended 30 September 2014 (30 September 2013 – 2.79 %).

7 Interest expense

For the nine months period ended 30 September 2014, the average overall annualised cost of funds was 0.39% (30 September 2013 – 0.52%).

8 Other operating income

	Nine months period ended 30 September 2014 RO'000	Nine months period ended 30 September 2013 RO'000
Gain on sale of property	**444**	-
Gain on sale of syndicated loans	**17**	915
Other income	**129**	427
	590	1,342

9 Loan impairment (charges) and other credit risk provisions - net of recoveries

	Nine months period ended 30 September 2014 RO'000	Nine months period ended 30 September 2013 RO'000
Provided during the period – general (note 13)	**(1,454)**	-
Provided during the period – specific (note 13)	**(4,567)**	(4,332)
Provisions released (note 13)	**1,438**	5,900
Adjustments as a result of fair value unwind	**173**	173
Reserved interest released	**352**	882
Written-off loans recovered	**1,552**	1,293
Bad debts directly written off to statement of profit or loss	**(96)**	(92)
	(2,602)	3,824

10 Operating expenses

	Nine months period ended 30 September 2014 RO'000	Nine months period ended 30 September 2013 RO'000
Employee compensation and benefits	**(18,062)**	(15,309)
General and administrative expenses*	**(19,358)**	(21,528)
Depreciation of property and equipment	**(1,581)**	(1,968)
	(39,001)	(38,805)

***General and administrative expenses for the current period include the RO 1.3m of "Mandoos Prize" draw expenses which was previously reported as interest expense until March 2013 (RO 0.6m).

11 Amortisation and impairment of intangible assets

	Nine months period ended 30 September 2014 RO'000	Nine months period ended 30 September 2013 RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposits	**(1,319)**	(1,319)
Customer relationships	**(395)**	(395)
	(1,714)	(1,714)

12 Earnings per share basic

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

	Nine months period ended 30 September 2014	Nine months period ended 30 September 2013	For the year ended 31 December 2013
Weighted average number of shares in issue ('000)	**2,000,313**	2,000,313	2,000,313
Net profit for the period (RO'000)	**9,480**	12,747	10,863
Earnings per share basic – annualised (RO)	**0.006**	0.008	0.005

13 Loans and advances to customers - net

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

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Overdrafts	**90,755**	88,049	87,992
Loans	**1,110,779**	1,001,195	969,181
Bills discounted / purchased	**45,046**	25,109	24,302
Gross loans and advances	**1,246,580**	1,114,353	1,081,475
Provision for loan impairment - specific	**(37,530)**	(35,460)	(37,049)
Provision for loan impairment - general	**(15,691)**	(14,559)	(14,237)
Reserved interest	**(54,904)**	(48,143)	(49,717)
Net loans and advances	**1,138,455**	1,016,191	980,472

13 Loans and advances to customers (continued)

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

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
0-5%	**651,175**	509,572	480,525
5-7%	**339,133**	274,235	292,711
7-10%	**172,415**	269,021	248,282
10-13%	**70,197**	47,153	46,495
more than 13%	**13,660**	14,372	13,462
	1,246,580	1,114,353	1,081,475

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

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
0-6 months	**357,184**	310,064	268,829
6-12 months	**58,305**	55,990	45,797
1-3 years	**71,587**	53,109	51,233
3-5 years	**185,174**	189,632	190,750
More than 5 years	**466,205**	407,396	423,863
	1,138,455	1,016,191	980,472

13 Loans and advances to customers (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Personal and consumer loans	**451,379**	433,676	437,010
Corporate and commercial			
Import trade	**165,008**	129,635	100,554
Construction	**84,957**	61,527	45,690
Manufacturing	**162,026**	196,643	189,221
Wholesale and retail trade	**43,008**	21,502	33,847
Export trade	**11,734**	5,272	11,622
Electricity, gas, water, transportation and communication	**76,648**	77,490	58,683
Services	**198,785**	119,201	143,502
Mining and quarrying	**20,085**	30,387	29,306
Others	**32,934**	32,805	32,040
	795,185	674,462	644,465
Financial institutions	**16**	6,215	-
Total gross loans and advances	**1,246,580**	1,114,353	1,081,475
Provision for loan impairment - specific	**(37,530)**	(35,460)	(37,049)
Provision for loan impairment - general	**(15,691)**	(14,559)	(14,237)
Reserved interest	**(54,904)**	(48,143)	(49,717)
Net loans and advances	**1,138,455**	1,016,191	980,472
Non performing loans	**100,905**	93,115	94,668

Specific provision for loan impairment and reserved interest represents 91.6% (30 September 2013 – 89.8%) of gross non-performing loans and advances.

13 Loans and advances to customers (continued)

Provision for loan impairment and reserved interest

The movement on provision for loan impairment for the nine months period ended 30 September 2014 is analysed in the table below:

	Specific provision RO'000	**General provision RO'000**	**Total provision RO'000**
Balance at 1 January 2014	**37,049**	**14,237**	**51,286**
Currency translation effect on opening balance	**20**	**-**	**20**
Provided during the period (note 9)	**4,567**	**1,454**	**6,021**
Provisions released (note 9)	**(1,438)**	**-**	**(1,438)**
Written off during the period	**(2,668)**	**-**	**(2,668)**
Balance at 30 September 2014	**37,530**	**15,691**	**53,221**

The movement on provision for loan impairment for the nine months period ended 30 September 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	(76)	-	(76)
Provided during the period (note 9)	4,332	-	4,332
Provisions released (note 9)	(4,179)	(1,721)	(5,900)
Written off during the period	(2,219)	-	(2,219)
Balance at 30 September 2013	35,460	14,559	50,019

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

	30 September 2014 RO'000	30 September 2013 RO'000
Balance at the beginning of the period	**49,717**	45,085
Currency translation effect on opening balance	**3**	(7)
Reserved during the period	**8,103**	8,166
Released to the statement of profit or loss	**(996)**	(882)
Written off during the period	**(1,923)**	(4,219)
Balance at end of the period	**54,904**	48,143

The estimated fair value of loans and advances is not materially different from the carrying value of loans and advances.

14 Financial investments

Financial investments details are provided as follows:

	Fair value 30 September 2014 RO'000	Fair value 30 September 2013 RO'000	Fair value 31 December 2013 RO'000	**Carrying value 30 September 2014 RO'000**	Carrying value 30 September 2013 RO'000	Carrying value 31 December 2013 RO'000	**Cost 30 September 2014 RO'000**	Cost 30 September 2013 RO'000	Cost 31 December 2013 RO'000
Marketable securities – MSM									
Finance	**2,393**	2,289	2,245	**2,393**	2,289	2,245	**1,911**	1,911	1,911
Insurance	**352**	355	355	**352**	355	355	**340**	340	340
Services	**431**	410	415	**431**	410	415	**361**	361	361
Industrial	**42**	41	42	**42**	41	42	**54**	54	54
Government bonds	**68,471**	57,294	68,086	**68,471**	57,294	68,086	**67,342**	56,144	67,449
	71,689	60,389	71,143	**71,689**	60,389	71,143	**70,008**	58,810	70,115
Marketable securities – Foreign by Sector									
Government securities	**9,688**	2,380	2,271	**9,688**	2,380	2,271	**9,688**	2,389	2,276
Foreign shares	**4,390**	3,948	4,631	**4,390**	3,948	4,631	**2,407**	2,407	2,407
	14,078	6,328	6,902	**14,078**	6,328	6,902	**12,095**	4,796	4,683
Unquoted and other investments									
Certificates of Deposits				**460,038**	765,043	730,039	**460,038**	765,038	730,039
Unquoted Omani shares				**1,010**	1,010	1,010	**1,010**	1,010	1,010
Investment fund units				**14,869**	13,899	14,217	**11,717**	11,717	11,717
				475,917	779,952	745,266	**472,765**	777,765	742,766
Total				**561,684**	846,669	823,311	**554,868**	841,371	817,564

14 Financial investments (continued)

Details of AFS investments are as follows:	**30 September 2014 RO'000**	30 September 2013 RO'000	31 December 2013 RO'000
Cost of:			
Quoted - Foreign Government securities	**9,688**	2,389	2,276
Quoted – Equity and other investments	**72,415**	61,217	72,522
Unquoted investments and other securities	**472,765**	777,765	742,766
	554,868	841,371	817,564
Revaluation gain of:			
Quoted - Equity and other securities	**6,816**	5,298	5,747
	561,684	846,669	823,311

15 Other assets

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Derivatives - positive mark to market	**1,694**	939	1,224
Prepayments and accrued income	**1,873**	1,971	1,507
Deferred tax asset	**3,103**	3,469	3,959
Acceptances	**38,151**	57,086	51,986
Others	**19,447**	2,696	3,042
	64,268	66,161	61,718

16 Intangible assets

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Core deposits	**12,306**	12,306	12,306
Customer relationships	**3,691**	3,691	3,691
	15,997	15,997	15,997
Less: amortised	**(5,332)**	(3,047)	(3,618)
	10,665	12,950	12,379

17 Property and equipment

RO 1.2m of property and equipment were added during the period (September 2013: RO 3.7m).

18 Deposits from customers

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Deposits details are as follows:			
Current and call	**1,030,940**	1,205,371	1,123,324
Savings	**453,256**	421,971	430,565
Time deposits	**311,752**	294,976	232,754
Others	**4,371**	5,495	6,060
	1,800,319	1,927,813	1,792,703

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

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
0-6 months	**700,636**	864,535	782,837
6-12 months	**267,525**	299,433	288,011
1-3 years	**125,379**	139,026	140,970
3-5 years	**304,896**	135,798	137,984
Over 5 years	**401,883**	489,021	442,901
	1,800,319	1,927,813	1,792,703

The interest rate bands of deposits are as follows:

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
0-2%	**1,605,421**	1,811,907	1,768,355
2-4%	**191,893**	112,023	21,296
4-6%	**7**	477	39
6-8%	**68**	394	206
8-10 %	**2,930**	3,012	2,807
	1,800,319	1,927,813	1,792,703

19 Other liabilities

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Derivatives - negative mark to market	**1,331**	1,489	1,563
Deferred tax liability	**1,358**	1,008	1,237
Retirement benefit liability	**635**	773	603
Acceptances	**38,151**	57,086	51,986
Tax liability	**2,033**	3,848	4,155
Accruals and deferred income	**1,998**	1,413	1,422
Obligation under finance lease	**1,130**	1,184	1,031
Others	**12,909**	18,622	18,511
	59,545	85,423	80,508

20 Contingent liabilities, commitments and derivatives

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Forward forex contracts – sales	**162,081**	76,414	117,599
Forward forex contracts – purchases	**163,833**	79,595	119,423
Currency swaps	**55,818**	49,002	39,377
Interest rate swaps	**93,697**	20,261	18,557
Undrawn unconditionally cancellable commitments	**538,096**	764,444	747,239
Undrawn unconditionally non-cancellable commitments	**102,229**	44,599	38,544
	1,115,754	1,034,315	1,080,739

As at 30 September 2014, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore they do not consider it necessary to make any additional provisions in this regard.

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

		Valuation techniques		
	Quoted market price Level 1	**Using observable inputs Level 2**	**Financial instruments carried at cost**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
At 30 September 2014				
Assets				
Derivatives	**-**	**1,694**	**-**	**1,694**
Financial investments: available-for-sale	**17,230**	**543,444**	**1,010**	**561,684**
Liabilities				
Derivatives	**-**	**1,331**	**-**	**1,331**
At 30 September 2013				
Assets				
Derivatives	-	939	-	939
Financial investments: available-for-sale	9,356	836,303	1,010	846,669
Liabilities				
Derivatives	-	1,489	-	1,489

Investments carried at cost and derivatives

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

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

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

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

22 Asset liability mismatch

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

	30 September 2014			30 September 2013			31 December 2013		
Maturities	**Assets**	**Liabilities and equity**	**Mismatch**	Assets	Liabilities and equity	Mismatch	Assets	Liabilities and equity	Mismatch
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
0-6 months	**1,274,190**	**817,282**	**456,908**	1,447,658	968,384	479,274	1,324,867	905,305	419,562
6-12 months	**71,112**	**278,161**	**(207,049)**	84,788	326,774	(241,986)	80,520	299,796	(219,276)
1-3 years	**104,332**	**125,400**	**(21,068)**	88,185	139,048	(50,863)	73,404	140,993	(67,589)
3-5 years	**219,925**	**304,896**	**(84,971)**	229,175	135,798	93,377	228,493	137,984	90,509
more than 5 years	**556,376**	**700,196**	**(143,820)**	503,035	782,837	(279,802)	513,604	736,810	(223,206)
	2,225,935	**2,225,935**	**-**	2,352,841	2,352,841	-	2,220,888	2,220,888	-

23 Exposure to credit risk

	Loans and advances (As per CBO)			**Due from banks**			**Financial investments**		
	30 September 2014	30 September 2013	31 December 2013	**30 September 2014**	30 September 2013	31 December 2013	**30 September 2014**	30 September 2013	31 December 2013
	RO'000	RO'000	RO'000	**RO'000**	RO'000	RO'000	**RO'000**	RO'000	RO'000
Individually impaired - non performing	**100,905**	93,115	94,668	**-**	-	-	**-**	-	-
Provision for loan impairment specific and reserved interest	**(92,434)**	(83,603)	(86,766)	**-**	-	-	**-**	-	-
Carrying amount of non-performing	**8,471**	9,512	7,902	**-**	-	-	**-**	-	-
Past due and not impaired	**15,351**	19,550	25,751	**-**	-	-	**-**	-	-
Neither past due nor impaired	**1,130,324**	1,001,688	961,056	**266,529**	238,059	194,311	**561,684**	846,669	823,311
General provision	**(15,691)**	(14,559)	(14,237)	**-**	-	-	**-**	-	-
Total carrying amount	**1,138,455**	1,016,191	980,472	**266,529**	238,059	194,311	**561,684**	846,669	823,311

24 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (30 September 2013 – 2,000,312,790 shares of RO 0.100 each) against the authorised share capital of 7,500 million shares of RO 0.100 each (30 September 2013 – 7,500 million of shares of RO 0.100 each)

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

Major Shareholder

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

	30 September 2014 Number of shares	30 September 2013 Number of shares	31 December 2013 Number of shares
HSBC Bank Middle East Limited	**1,020,159,523**	1,020,159,523	1,020,159,523

25 Reserves

(a) Legal reserve

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

(b) Statutory reserve

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

(c) Available-for-sale fair value reserve

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

(d) Foreign exchange reserve

Foreign exchange reserve represents exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, recognised in other comprehensive income. Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in other comprehensive income.

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

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

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

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

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ('significant shareholders') or their family members during the period is as follows:

30 September 2014	**Significant shareholder - HSBC and related group entities RO'000**	**Directors RO'000**	**Key management personnel RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**-**	**-**	**-**	**20,831**	**20,831**
Current, deposit and other accounts	**-**	**15**	**-**	**21,976**	**21,991**
Letters of credit and guarantees	**-**	**-**	**-**	**9,362**	**9,362**
Due from banks	**56,695**	**-**	**-**	**-**	**56,695**
Due to banks	**22,145**	**-**	**-**	**-**	**22,145**
For the period ended 30 September 2014					
Net fee income	**99**	**-**	**-**	**-**	**99**
Other operating expenses	**(8,294)**	**(14)**	**(1,626)**	**(218)**	**(10,152)**

30 September 2013	Significant shareholder - HSBC and related group entities RO'000	Directors RO'000	Key management personnel RO'000	Others RO'000	Total RO'000
Loans and advances	-	8	-	17,417	17,425
Current, deposit and other accounts	-	69	-	24,933	25,002
Letters of credit and guarantees	-	-	-	9,107	9,107
Due from banks	30,735	-	-	-	30,735
Due to banks	5,949	-	-	-	5,949
For the period ended 30 September 2013					
Net fee income	195	-	-	-	195
Other operating expenses	(8,058)	(10)	(1,239)	(140)	(9,447)
Purchase of property and equipment	-	-	-	80	80

Related party loans and advances bear interest at rates between 1.5% p.a. and 6.5% p.a. Related party deposits bear interest at rates between 0.25% p.a. and 1.25% p.a.

27 Operating segments

The factors used to identify the Bank's reporting segment are discussed in the financial statements for the year ended 31 December 2013.

Geographical areas

A geographical analysis of key financial data by location of primary assets as at 30 September 2014 is set out below:

30 September 2014	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
Net operating income before loan impairment charges and other credit risk provisions	**52,943**	**19**	**-**	**52,962**
Loan impairment charges and other credit risk provisions – net of recoveries	**(2,601)**	**(1)**	**-**	**(2,602)**
Net operating income	**50,342**	**18**	**-**	**50,360**
Total operating expenses	**(39,952)**	**(763)**	**-**	**(40,715)**
Profit before tax	**10,390**	**(745)**	**-**	**9,645**
Tax expense	**(165)**	**-**	**-**	**(165)**
Profit for the period	**10,225**	**(745)**	**-**	**9,480**
Loans and advances to customers (net)	**1,138,411**	**44**	**-**	**1,138,455**
Total assets	**2,220,993**	**29,836**	**(24,894)**	**2,225,935**
Deposits from customers	**1,792,931**	**7,388**	**-**	**1,800,319**
Total liabilities	**1,915,560**	**11,947**	**(10,208)**	**1,917,299**

A geographical analysis of key financial data by location of primary assets as at 30 September 2013 is set out below:

30 September 2013	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
Net operating income before loan impairment charges and other credit risk provisions	51,815	97	-	51,912
Loan impairment charges and other credit risk provisions – net of recoveries	3,768	56	-	3,824
Net operating income	55,583	153	-	55,736
Total operating expenses	(39,654)	(865)	-	(40,519)
Profit before tax	15,929	(712)	-	15,217
Tax expense	(2,479)	9	-	(2,470)
Profit for the period	13,450	(703)	-	12,747
Loans and advances to customers (net)	1,015,877	314	-	1,016,191
Total assets	2,346,135	31,571	(24,865)	2,352,841
Deposits from customers	1,917,921	9,892	-	1,927,813
Total liabilities	2,041,260	12,746	(8,635)	2,045,371

Business Line segment

Information regarding products and services are discussed in note 4 to these unaudited condensed financial statements. The results of each reportable segment have been presented in the financial statements as of 31 December 2013.

28 Capital adequacy ratio

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. The Banks are required to maintain minimum capital adequacy ratio in excess of 12% excluding capital conservation buffers for 2014 (2013: 12%) in accordance with CBO stipulated guidelines.

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
CET 1/Tier 1 capital	**276,716**	271,281	276,716
Tier 2 capital (T2)	**16,572**	16,739	16,572
Total regulatory capital	**293,288**	288,020	293,288
Risk-weighted assets	**1,635,174**	1,514,461	1,452,846
CET 1 / Tier 1 capital ratio	**16.92%**	17.91%	19.05%
Total capital ratio	**17.94%**	19.02%	20.19%

29 Cash and cash equivalents

	30 September 2014 RO'000	30 September 2013 RO'000	31 December 2013 RO'000
Unaudited interim condensed statement of financial position comprises:			
Cash and balances with central banks	**153,892**	141,438	117,629
Due from banks	**266,529**	238,059	194,311
Due to banks	**(57,435)**	(32,135)	(41,830)
	362,986	347,362	270,110
Adjustment for items maturing after nine months from date of acquisition and restricted balances	**(15,886)**	(15,886)	(15,886)
	347,100	331,476	254,224
Cash and cash equivalent comprise:			
Cash and balances with central banks	**138,006**	125,552	101,743
Due from banks	**266,529**	238,059	194,311
Due to banks	**(57,435)**	(32,135)	(41,830)
Total	**347,100**	331,476	254,224

30 Comparative balances

Certain corresponding figures for 2013 have been reclassified in order to conform to the presentation for the current year.