HSBC Bank Oman S.A.O.G.

Annual Report and Accounts 2014

His Majesty Sultan Qaboos bin Said

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Board of Directors

Dr. Juma Ali Juma Al Juma
Senior Independent Director

Waleed Omar Al Zawawi
Deputy Chairman and Director

David Gordon Eldon
Chairman

Robert Adrian Underwood
Director

Abdulfattah Sharaf
Director

David Kotheimer
Director

Aimen Ahmed Sultan Al Hosni
Director

Management Team

Ali Al Abri
General Manager,
Human Resources

Iain Morrison,
General Manager,
Commercial Banking

Sulaiman Al Lamki
General Manager
and Chief Risk Officer

Andrew P Long
Chief Executive Officer

David Fisk
Head of Communications

Fawziya Al Khanjari
Deputy General Manager,
Government Relations

Biju Thottingal
General Manager, Legal

Nayeem Chowdhury
General Manager
and Chief Financial Officer

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

Saad Al Khalb
Chief Operating Officer

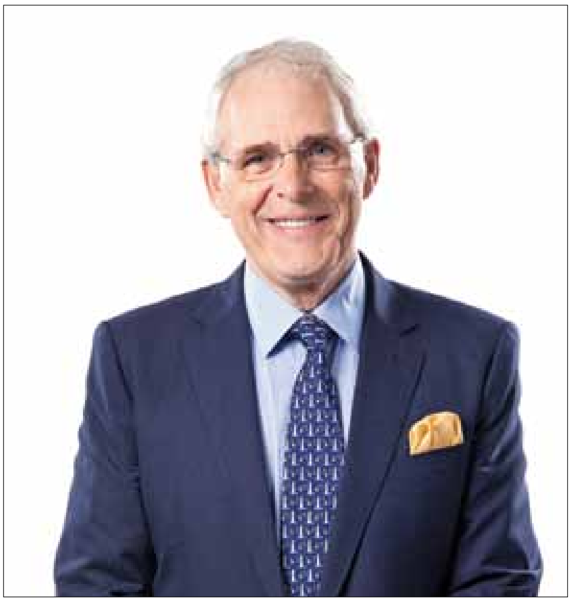
Mumtaz Yousuf
General Manager and
Treasurer, Global Markets

Lalit Mehta
General Manager,
Regulatory Compliance &
Financial Crime Compliance

Adel Ayad Attia
General Manager, Audit

Gopal Lohiya
Company Secretary

Board of Directors' Report for the year ended 31 December 2014



Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your Bank's full year financial results for 2014.

At our Annual General Meeting last March, we talked about how we had spent a lot of time and effort putting in place stronger foundations for the future as we continued on our journey to become the leading bank in Oman. Throughout 2014, we have seen good progress on our strategic objectives of growing revenues, streamlining processes and procedures and implementing the highest global standards to protect the Bank, our shareholders and our customers against the growing risks of financial crime, within a framework of delivering excellence in customer service at all times. We continued to invest in the bank and its future: in our people, by continuing to attract and retain the best local talent; in our franchise, in enhancements to our comprehensive digital banking proposition for example; and in the communities we serve, through a wide range of corporate sustainability initiatives.

HSBC Bank Oman is a proud local bank, and one that has a unique advantage in its ability to combine local expertise with HSBC Group's international connectivity. Our customers have benefited from this compelling proposition and this is something we will continue to exploit.

Economic overview

Oman's economic growth remains healthy with data for 2014 broadly positive. The non-oil economy has been the mainstay of growth, driven by government-sponsored infrastructure and spending, with the value of total projects underway estimated at around RO55 billion (as at September 2014). In terms of the oil sector, with revenues now looking to contract, this is expected to have implications on the country's long run of fiscal surpluses.

However, given the strength of the Sultanate's balance sheet and as is clear from Oman's state budget for 2015, the government has reiterated its commitment to continuing development spending which is expected to reach RO14.1 billion for the year, representing an increase of 4.5% over 2014.

Performance Summary

Our 2014 performance shows an 11.9% increase in net profit for the year ended 31 December 2014 of RO12.2m compared to RO10.9m for the year ended 31 December 2013, due to an increase in net operating income before loan impairment charges, a reduction in operating expenses and the release of prior years' tax provisions.

Net operating income before loan impairment charges increased by 3.3% to RO71.0m compared to RO68.7m for the year ended 31 December 2013 due to higher net interest income, net fee income and dividend income.

Net interest income increased by 1.7% to RO48.9m for the period ended 31 December 2014, up from RO48.1m for the year ended 31 December 2013, due to an increase in corporate loans and advances and a reduction in high cost corporate deposits. Net fee income increased by 9.6% to RO12.6m in comparison to RO11.5m for the year ended 31 December 2013 due to higher structuring and facility fees from corporate customers.

A net charge of RO2.9m has been reported for loan impairment charges mainly from both a general provision charge of RO1.5m on the back of an increase in corporate loans and advances and also due to a specific provision charge - net of recoveries – of RO1.3m for both retail and corporate customers, compared to a net recovery in 2013 of RO2.2m mainly from the release of the general provision of RO2.3m following the planned reduction in corporate loans and advances.

Operating expenses reduced by 4.3% to RO55.3m compared to RO57.8m for the year ended 31 December 2013 due to stricter cost management and non-recurrence of operational losses and one-off expenses in 2013.

Loans and advances net of provisions and reserved interest as at 31 December 2014 increased by 18.4%

Board of Directors' Report for the year ended 31 December 2014

to RO1,161.3m due to an increase in corporate loans and advances. Customer deposits increased by 3.3% to RO1,852.3m compared to RO1,792.7m as at 31 December 2013.

HBON's Capital Adequacy ratio stood at 18.2% for the year ended 31 December 2014 compared to 20.2% for the year ended 31 December 2013, representing a continuing strong capital base for future growth.

The Board of Directors proposes a total cash dividend of RO11.0m, with a dividend pay-out ratio of 90%.

Delivering the best customer experience

In 2014, we introduced a more customer-centric way of serving retail banking customers where staff are no longer rewarded on product sales, but on how they deliver customer service. This has resulted in staff having more valuable conversations with customers about their financial needs. This produced a notable increase in new customer acquisition in our key segments of Premier (30%) and Advance (27%), as well as significant growth in asset acquisition (cards, loans and mortgages).

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

Our diverse branch footprint remains important and the branch refurbishment programme continued with a further 12 locations upgraded to provide a more modern banking environment for customers and staff.

In Commercial Banking, new deals were secured as a result of the strength of our local expertise coupled with our international connectivity, leading to strong growth in the balance sheet in loans to customers year-on-year, with key clients including ORPIC and Oman Oil. This expertise was externally recognised through a number of industry awards, including the "Best International Trade Finance Bank in Oman" from the GTR MENA Leaders in Trade Awards and "Best Domestic Cash Management Bank" in the Sultanate, from Euromoney's 2014 Cash Management Survey. Throughout the year, we continued to leverage our industry expertise to help our clients and their staff improve their knowledge through product briefings and tailored seminars. We also hosted the Bank's annual Economist Roadshow where our customers had the opportunity to hear from and interact with our globally experienced, in-house economists about the outlook for the region, oil prices and so on.

In November, we were delighted to launch a RO 20 million International Growth Fund for Oman's international and internationally aspirant SMEs (Small and Medium Enterprises). SMEs are critical to the future of Oman's economy and this fund aims to support Omani companies who are based in Oman and contribute to the ongoing growth, modernisation and diversification of the country's economy. This was complemented by a new "Growth Series" – a quarterly seminar for our SME customers where industry experts share insight and advice to help them prosper in local and international markets.

Streamlining our processes and procedures

A number of initiatives were introduced to enhance and strengthen our payments infrastructure this year. It is pleasing to note that for the last quarter of 2014, for example, we processed payments on time and in line with customer expectations at an accuracy rate of 99.5%. Given we processed over 260,000 payments per month, this is exemplary.

Paper usage across the Bank remains an area of focus, not only in terms of reducing waste but also in support of our environmental goals. A project to reduce the number of reports being generated in paper format has led to a saving of 2.2 million pieces of paper so far, on an annualised basis.

In addition, strong collaboration across the Bank has enabled it to halve the time it takes for a credit card application to be processed for our customers. Work continues to improve this even further in 2015.

We continue to support our customers in making greater use of our digital banking channels to help enhance the efficiency and security associated with their transactional processing. In retail banking, we have seen a 37% increase this year in the number of customers registering to use internet banking and witnessed a 65% increase year-on-year in the number of transactions being undertaken through one of our digital banking channels as opposed to traditional branch channels. Similarly, for our corporate clients, we have seen an increase in the number of transactions being routed through HSBCnet of over 70% in 2014.

Our operations in India and Pakistan

Prior to the 2012 merger of HSBC Bank Middle East's Oman operations with Oman International Bank (OIB), a decision was taken by the former OIB Board of Directors and unanimously approved by the OIB

Board of Directors' Report for the year ended 31 December 2014

shareholders at an Extraordinary General Meeting in May 2012, to dispose of the Bank's operations in India and Pakistan.

In April, we confirmed that the Bank had entered into an agreement to sell its banking business in India to Doha Bank QSC. This transaction is ongoing and is expected to complete during the first half of 2015. In November, we confirmed that the Bank was in discussion with Meezan Bank Limited regarding the possible sale of its operations in Pakistan.

Investing in our people

We built on the solid training platform already established. Staff took advantage of a variety of different training activities and through alternative media during the year. For example, on average, staff received over 3 days of face-to-face classroom training (equating to around 2,000 learning days) and e-learning. In addition, staff benefited from a range of on-the-job and Compliance-related training, as well as support pursuing professional qualifications.

We continued to invest in identifying and developing Omani talent, appointing more nationals into senior positions, including two General Manager roles in Retail Banking & Wealth Management and Risk Management. The Bank also launched a Graduate Management Trainee Programme with new graduates joining in the first quarter of 2014, one of whom was subsequently accepted onto the HSBC Group Graduate Development Programme, a highly competitive, key talent development programme across the world.

In addition, we actively promoted the opportunities in the Bank to young and emerging talent by supporting local careers fairs during the year. Some of the Bank's most promising Omani staff also attended a Career Development Programme to learn about leadership and networking, how to identify challenges as well as problem solving techniques.

Contributing to the communities we serve

As a local bank, HSBC Bank Oman believes strongly in the importance of supporting the communities in which it serves across the Sultanate of Oman. Its corporate sustainability activities are focused primarily on educational and environmental initiatives. In 2014, staff from the Bank volunteered over 860 hours of support to these initiatives.

In 2014, we renewed our sponsorship of 'Kids Read', in association with the Ministry of Education and British Council for a fourth year and signed an agreement with Outward Bound Oman to run a 'Journey to Discovery' programme to equip Omani schoolchildren with essential life skills for the future. Staff volunteers participated in Outward Bound's National Day expedition in Rub Al Khali, distributed books to schools around Oman under a "Books for Brains" initiative, delivered over 2,000 food hampers to low income families in the lead up to the Holy Month of Ramadan and staff extended support to the Muscat Child Care Centre. The Bank partnered with the Oman Water Society to renovate Al Maidan Falaj in Wilayat Nakhal and staff took part in the annual Oman Cancer Association walkathon, worked with the British Council to deliver an online training programme focused on special education needs for Ministry of Education teachers and sponsored a 'Golf for Autism' event to help raise awareness of autism in Oman.

In December, we were delighted to launch a new initiative, once again working closely with the British Council, called the Young Omani Authors competition – a short story writing contest for Omani schoolchildren to help nurture their literacy skills.

Conclusion

For 2015, we remain committed to delivering the very best experience for our customers at all times and through all customer touch-points. We are confident that the Bank is positioned well to take full advantage of both the opportunities that will arise and to tackle any challenges that lie ahead. We will continue to invest in the future of the Bank as we maintain our journey to become the leading bank in Oman.

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

David Gordon Eldon
Chairman


HSBC

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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 11 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 2014 and does not extend to the financial statements or any other reports of HSBC Bank Oman SAOG, taken as a whole.

5 March 2015

Khalid Masud Ansari

C.R. No. 1/30936/6

Corporate Governance Report
For the Annual Report 2014

'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.'

HSBC Bank Oman purpose statement

1. Values

1.1 The Board of HSBC Bank Oman S.A.O.G. ('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

Corporate Governance Report (continued)
For the Annual Report 2014

and periodically updated as required. The Framework sets out the matters reserved to the shareholders, to the Board and to the executive management team ('Management').

3. Board of Directors – nominations & duties

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

3.2 The term of the current Board commenced on 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 ('AGM'). Anyone wishing to be nominated for the position of Director must:

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

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

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

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

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

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).	Entered banking in 1964, undertaking a wide variety of banking and executive management roles in UK, Middle East and Asia. Became a General Manager of HSBC Group in 1990, an Executive Director of the Hongkong and Shanghai Banking Corporation in 1994, its Chief Executive Officer in 1996 and its Chairman in 1999. In 1996 became Chairman of Hang Seng Bank, and a director of HSBC Holdings plc on 1 January 1999. He retired in 2005. Since 2011, Director and Non- Executive Chairman of HSBC Bank Middle East Limited, and since 2012 Chairman HSBC CMB Global Risk committee. Lead Independent Non- Executive director of Singapore Listed Noble Group Limited, a member of the Government of Dubai's International Financial Centre Higher Board and until December 2012 consultant to the Office of the President of South Korea. Past Chairman of the Hong Kong General Chamber of Commerce, and the Seoul International Business Advisory Committee. 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 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.
Brig. (Retd.) Waleed Omar Al Zawawi Deputy Chairman & independent non-executive director Qualifications: Masters from Kings College, UK	Director of Oman International Bank SAOG since 1996 to end May 2012. Currently, Deputy Chairman of HSBC Bank Oman SAOG with effect from 31 May 2012, with over 30 years of corporate experience. Served in the Oman Armed Forces for 30 years.
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 Oman National Engineering and Investment Company SAOG.

Corporate Governance Report (continued)
For the Annual Report 2014

Name & Category	**Biography**
Directors in office	
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	Deputy CEO & Chief Operating Officer, HSBC United Arab Emirates located in Dubai from March 2014. Previously Regional Head of Strategy & Planning and Head of International for the HSBC Group's Middle East and North Africa (MENA) Region from January 2012 to March 2014; formerly Deputy CEO for HSBC Brazil located in São Paulo from July 2009 to January 2012, responsible for several businesses and functions within the Brazilian operations including Legal, Human Resources, Compliance, Marketing, Planning, Private Banking and Asset Management.
Abdulfattah Sharaf Independent, non-executive director Qualifications: Graduate of the University of Denver, USA	Abdulfattah Sharaf is the Chief Executive Officer, United Arab Emirates, a Board Member of HSBC Bank Middle East Limited (HBME), of HSBC Saudi Arabia Limited (IBSA), and HSBC Bank Oman S.A.O.G. (HBON). Prior to his appointment as CEO UAE, he was the CEO Personal Financial Services, Middle East and North Africa, and responsible for all of HSBC's Retail Banking business in the MENA region. Before joining HSBC Bank Middle East Limited, Abdulfattah was Chief Executive Officer of NBD Securities, a subsidiary of Emirates NBD. Abdulfattah is currently a member of the Higher Board of the Dubai International Financial Centre (DIFC) and a Board member of the Emirates Telecommunications Corporation (Etisalat) and Noor Dubai Foundation. He is also a member of the Advisory Board Council of the American University of Sharjah's School of Business and Management and a Board Member of the Emirates Golf Federation.
Robert Adrian Underwood Independent, non-executive director Qualifications: BSc Economics and Politics, Bath University, Bath, UK Associate of Chartered Institute of Bankers, London, UK	From 1987 to 2000: Various roles in HSBC Group in London, Hong Kong and Saudi Arabia covering Credit Risk, Credit Training, Corporate Lending and Specialized Industries and Shipping Lending. From November 2000 to February 2004; was Senior Manager, Group HR. From February 2004 to September 2007 was CEO of HSBC Chile. From September 2007 to February 2010 was Head of Wholesale Risk for HSBC Latin America based in Mexico. From February 2010 to June 2014 was Regional Head of Wholesale and Market Risk, HSBC Middle East, and from June 2014 to date is Chief Risk Officer, HSBC Middle East and North Africa based in Dubai.
Resigned from office	
Francesca McDonagh Independent, non-executive director Qualifications: Bachelor of Administration (Honours) from the University of Oxford in Philosophy, Politics and Economics	Group General Manager, Head of Retail Banking and Wealth Management, HSBC plc, UK. Responsible for all aspects of customer service, channels, products and segments of HSBC's retail business for HSBC plc, M&S Bank and first direct. Formerly the Regional Head of Retail Banking and Wealth Management for HSBC in Middle East and North Africa and Head of Personal Financial Services for HSBC in Hong Kong. Appointed Group General Manager in August 2014. Member of Mastercard Advisory Board, Europe. Young Global Leader (2014) of World Economic Forum.

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 2014, 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 during 2014 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.

2014 Dates	Board & Committee
28 January	Board, Audit, Risk
3 March	Board, Audit
27 March	Board
15 April	Board
27 April	Board, Audit, Risk
21 July	Board, Audit, Risk
17 September	Board
27 October	Board, Audit, Risk
11 December	Board

6.4 The Board met 9 times, the Audit Committee met 5 times and the Risk Committee met 4 times in 2014. The AGM was held on 27 March 2014. In addition, an extraordinary general meeting ('EGM') and an ordinary general meeting ('OGM) was held on 28 October 2014 for obtaining the Shareholders approval for sale of HBON's India operations and for the appointment of a director on HBON's Board respectively. The composition, name of members, Chairperson, and attendance record of the Board and Committees and directorships are given in the table below:

Corporate Governance Report (continued)
For the Annual Report 2014

Name	Board & Committee membership	Attendance at Board and Committee meetings			Attendance at the Shareholders Meetings			Director of any other SAOG Company
		Board	Audit	Risk	AGM	EGM	OGM	
David Gordon Eldon	Board Chairman	9	N/A	N/A	Yes	Yes	Yes	No
Brig. (Retd.) Waleed Omar Al Zawawi	Board Deputy Chairman, and Audit	9	5	N/A	Yes	Yes	Yes	Yes
Dr. Juma Ali Juma Al Juma	Board	7	N/A	N/A	Yes	No	Yes	Yes
Aimen Ahmed Sultan Al Hosni	Board and Risk	8	N/A	4	Yes	No	No	Yes
David Kotheimer	Board, Audit Chairman, and Risk (Risk Committee Chairman until 21 July 2014)	9	5	4	Yes	Yes	Yes	No
Abdulfattah Sharaf	Board and Risk	8	N/A	1	Yes	No	No	No
Robert Adrian Underwood (Appointed on 27 April 2014)	Board, Audit, and Risk. Risk Committee Chairman effective from 21 July 2014.	4	1	1	N/A	Yes	Yes	No
Francesca McDonagh (Resigned on 27 April 2014)	Board, Risk and Audit	2	2	1	No	N/A	N/A	No

7. Remuneration

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

- RO 500 as a sitting fee payable for every Board meeting attended; and
- RO 500 as a sitting fee for every Committee meeting attended;

subject always to (i) an individual director cap of RO 10,000 per annum and (ii) a maximum annual fees/expenses cap in aggregate (for the Board as a whole) of RO 200,000.

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

7.3 During 2014, David Kotheimer, Francesca McDonagh, Robert Adrian Underwood and Abdulfattah Sharaf each waived their entitlement to be paid the whole or any part of their Board/Committee sitting fees.

7.4 The total Board/Committee sitting fees and expenses paid during 2014 amounted to RO 58,471 in accordance with the following table:

Name of the Director	RO
David Gordon Eldon	4,500
Brig. (Retd.) Waleed Omar Al Zawawi	7,000
Dr. Juma Ali Juma Al Juma	3,500
Aimen Ahmed Sultan Al Hosni	6,000
David Kotheimer	-
Robert Adrian Underwood	-
Abdulfattah Sharaf	-
Francesca McDonagh	-
Total sitting fees	**21,000**
Total hotel, travel and other board expenses	**37,471**
GRAND TOTAL	**58,471**

7.5 The total remuneration paid/payable in aggregate for 2014 to the senior members of the executive management team including salary, benefits, bonuses, stock options, gratuity and pensions amounted to RO 2.4 million. The total remuneration paid/payable in aggregate for 2014 to the top 5 officers amounted to RO 1.4 million.

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

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

8. Audit Committee and other Committees

8.1 The Board has implemented 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, 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 continual 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 3,528 shareholders as at 31 December 2014.

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

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 2014:

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	0.178	0.165	8,497.16
February	0.165	0.156	8,483.30
March	0.156	0.147	8,237.69
April	0.156	0.145	8,111.57
May	0.160	0.148	8,031.90
June	0.162	0.156	8,368.98
July	0.179	0.162	8,751.80
August	0.167	0.160	8,919.87
September	0.182	0.168	9,300.77
October	0.180	0.165	8,597.10
November	0.165	0.140	8,381.97
December	0.148	0.115	7,430.26

12.2 The following table sets out the distribution of HBON share ownership during 2014:

% Shareholding	No of shareholders
Less than 5%	3,527
Between 5 – 10%	0
More than 10%	1
Total	3,528

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 total fines of RO 32,410 were imposed on HBON and its Pakistan operations for regulatory penalties. This amount comprised of fines of RO 30,000 levied by the CBO 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. Fines equivalent of RO 2,410 were levied by State Bank of Pakistan on HBON's Pakistan operations relating to operational 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 AGM.

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 were the statutory auditors of HBON in 2014.

Corporate Governance Report (continued)
For the Annual Report 2014

15.2 The Shareholders of HBON appointed KPMG as HBON's auditors for the year 2014.

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 150 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 162,000 people working together in 155 countries worldwide.

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

16. Audit Fees

16.1 During the year 2014, KPMG billed an amount of RO 127,121 towards professional services rendered to HBON (RO 57,200 for audit and RO 69,921 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 financial statements have been prepared in accordance with the applicable standards and rules;
- The efficiency and adequacy of the internal control systems of HBON have been reviewed and are in compliance with internal rules and regulations;
- There are no material things that affect the continuation of HBON and its ability to continue its operations during the next financial year.

For and on behalf of the Board of Directors

David Gordon

David Gordon Eldon
Chairman


Premier

Management Discussion and Analysis

Who we are

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

Customers:
Over 200,000 active retail customers and more than 10,000 corporate clients

Served by:
1100 employees

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

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

Offices:
74 branches across the Sultanate of Oman

Headquarters:
Al Khuwair, Muscat

Market capitalisation:
Over RO280 million

Listed on the Muscat Securities Market

Shareholders:
3528 (as at 31 December 2014)

Part of the HSBC Group, which serves customers worldwide from over 6,200 offices in over 74 countries and territories in Europe, Asia, North and Latin America and the Middle East and Africa.

Our Purpose

Our purpose is to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

Our strategic priorities

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

We have a set of three interconnected and equally weighted priorities to help us deliver our strategy:

- Grow the business and dividends
- Implement Global Standards
- Streamline processes and procedures

Each priority is interrelated, complementary and underpinned by initiatives within our day-to-day business. These are discussed in greater detail later in the Management Discussion and Analysis, particularly our focus on implementing Global Standards. Together they create value for our customers and shareholders, and contribute to the long-term sustainability of HSBC Bank Oman.

How we measure performance

We track our progress in implementing our strategy with a range of financial and non-financial measures or key performance indicators.

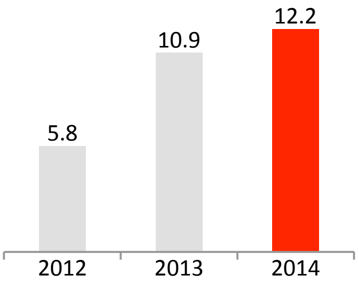
Rewarding performance

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

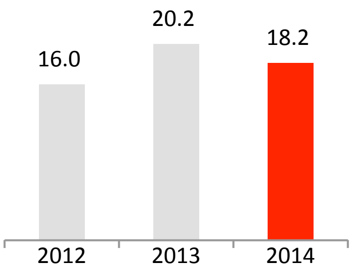
Highlights of 2014

- Net profit was RO12.2m, up 11.9% over last year.
- Loans and advances to customer – net increased by 18.4% to RO1,161.3m due to an increase in corporate loans and advances.
- Capital adequacy ratio stood at 18.2% representing a continuing strong capital base for future growth.
- Dividends per share grew 44.7%

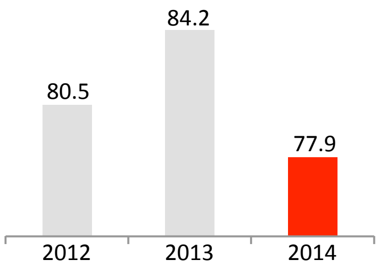
Profit for the year
RO12.2m



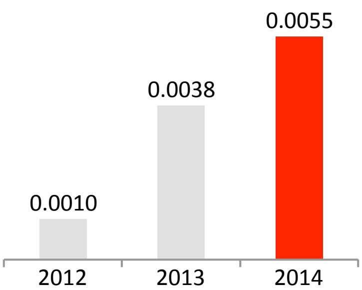
Total capital ratio
18.2%



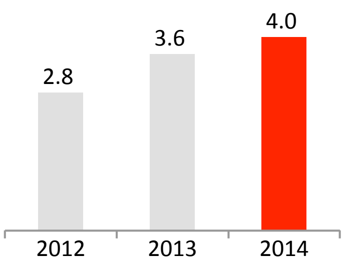
Cost efficiency ratio
77.9%



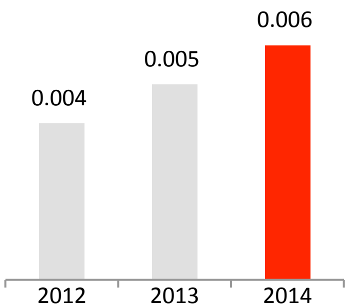
Dividend per share
RO 0.0055



Return on average equity
4%



Earnings per share - basic
RO0.006



Management Discussion and Analysis (continued)

Oman's Economy

For 2014, proxy indicators suggest that the economy continued to expand through the last quarter of the year, with HSBC's Economists estimating that growth averaged around 4%, close to its 2013 level.

The sharp and sustained decline in energy prices is necessarily the key aspect of a changing global dynamic for Oman, where prices have fallen more than 60% from their peak by mid-January 2015. Inflationary pressures remain muted and are unlikely to grow on a sustained basis.

The government's expansionary budget for 2015 is evidence of a commitment that critical projects will remain on track and that projects intended to diversify the economy and stimulate economic growth will continue to be supported. This includes continuing investment at Duqm, commencement of the Sohar - Al Buraimi section of the national railway project, along with several major road and tourism projects.

Globally, the drop in prices for oil and other commodities and a moderation in economic growth across much of the emerging and developed world have raised concerns about deflation. As a result, interest rates have remained low and the prospects for interest rate rises have diminished, including in the US. This will have a direct impact on policy rates in Oman, which are low and are likely to remain so. Rising government borrowing requirements may start to put pressure on market liquidity. With the US outperforming its developed world peers, the dollar has strengthened, drawing the trade weighted value of the Omani Rial upward as well.

Oman's Banking Environment

Oman's banking sector recorded positive growth in 2014. Total assets of commercial banks increased by 11.1% to RO24.8 billion in December 2014, up from RO22.4 billion the previous year. Total credit increased by 11.3% to RO16.9 billion at the end of December 2014 compared with the same period in 2013.

Credit granted to the private sector increased 10.9% during the period to reach RO14.7 billion as at the end of December 2014. Of the total credit to the private sector by the end of December, the share of the non-financial corporate sector stood at 47.8%, closely followed by the household sector (mainly under personal loans) at 45.4%. Commercial banks' overall investments in securities increased by 14.2% to RO2.9 billion at the end of December 2014 from RO2.6 billion a year ago. Commercial banks' investments in foreign securities increased by 41% to RO708.7 million in December 2014.

Aggregate deposits held with commercial banks registered a significant increase of 10.9% to RO17.3 billion in December 2014 from RO15.6 billion a year ago. Government deposits with commercial banks increased by 10.1% to RO5 billion, while deposits of public enterprises reduced by 6% to RO0.88 billion during the same period. Private sector deposits, which constituted 64.7% of total deposits with commercial banks, increased 13.5% to RO11.2 billion in December 2014, from RO9.9 billion a year ago.

HSBC Bank Oman at a glance

HSBC Bank Oman S.A.O.G. (HBON), created in June 2012 following the merger of Oman International Bank S.A.O.G. (OIB) with HSBC Bank Middle East Limited's Oman operations (HSBC Oman), is one of the 8 banks listed on the Muscat Securities Market and is 51% owned by the HSBC Group. HBON has 74 branches across the Sultanate and employs 1,100 employees.

HBON offers diversified financial solutions to a customer base of more than 200,000 active retail and 10,000 corporate clients. Globally, HSBC is one of the largest banking and financial services organisations in the world, with some 6,200 offices in around 74 countries and territories across six geographical regions. It is this international connectivity, coupled with a large domestic presence in the Sultanate, which gives HBON many competitive advantages in terms of the solutions that can be offered to its client base.

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

Our Purpose and Values

Our purpose is to connect customers to opportunities, enabling businesses to thrive and economies to prosper, helping people to fulfil their hopes and realise their ambitions. Our dealings with our customers are conditioned by our understanding of their needs, the quality of the service we provide and the standards which govern how we operate.

The Hongkong and Shanghai Banking Corporation was established 150 years ago (in 1865) and HSBC, originally through the British Bank of the Middle East, has been in the Sultanate since 1948. It is this history of connecting customers to opportunities by being present in areas of growth that is key to our values and strategy. HSBC's goal globally is to be the leading international bank, while in the Sultanate our ambition is to be the leading bank in Oman. Our purpose and values will help us achieve that goal.

Oman, located as it is at the southern end of the Gulf, has become a melting pot of cultures and is notable for its openness and hospitality to all. Oman's trading history reflects that of HSBC and in HBON we share values that are fully aligned. We too are open to different cultures and ideas, aiming to be recognised by our customers and employees as being dependable by doing the right thing, delivering on our commitments and connecting our customers to where they want to do business.

Our Strategy

Our strategic priorities are designed to ensure we have a sustainable business for the long-term:

1. **Growing our revenues** – profit underpins long-term business sustainability and growing our profit is an integral part of our strategy. The conditions for creating value and generating profits are reflected in our business and operating models. Delivering organic growth will support a progressive dividend.

2. **Implementing Global Standards** – consistent operating principles are fundamental to the way we do business and will help us to detect, deter and protect against the risks of financial crime. Implementing Global Standards, as defined globally across the HSBC Group, affects how we govern HBON, the nature of our core business and the performance, recognition and behaviours of our employees in managing high quality customer relationships, embedding our values in everything we do. In Oman, standards are already high, as a result of highly credible regulations that govern the market. With banking so inter-connected globally and with the attention of the world on every jurisdiction, we believe that, for the safety and security of our customers, we have a duty to apply the highest Global Standards to everything we do.

3. **Streamlining our processes and procedures** – this is crucial to the long-term sustainability of our business. Society's expectations of the financial services industry are evolving and becoming more demanding. At the same time, the digital revolution is reducing barriers to new entrants to the industry and markets are becoming increasingly competitive. In this environment, it is essential that we focus relentlessly on improving efficiency, ensuring that we streamline processes and procedures and, as a consequence, reduce our costs.

Our financial results to date show that we remain firmly on track, continuing to make prudent progress against this strategy and building a platform for sustainable growth in future years. By running a sustainable business, HBON is able to make a valuable contribution to the Oman economy by paying dividends to our shareholders, salaries to our employees, payments to suppliers and tax revenues to the government. We also finance companies so that they, in turn, can create employment.

Financial Performance Analysis

Profit for the year: HBON recorded an 11.9% increase in net profit to RO12.2m for the year ended 31 December 2014 compared to RO10.9m for the year ended 31 December 2013. This increase was mainly due to an increase in net operating income before loan impairment charges, a reduction in operating expenses and the release of prior years' tax provisions. Analysis across our businesses shows that our wholesale bank (CMB and GB&M) generated a profit before tax of RO13.8m and while the retail bank showed a loss of RO1.0m, this represented a significant improvement over the prior year. The financial results are further analysed as follows:

Net Interest Income ('NII'): NII for the year ended 31 December 2014 rose by 1.7% to reach RO48.9m.

The NII for the wholesale bank grew 4.5% while it remained flat for the retail bank.

Net fees, trading and other operating income: Net fees, trading and other operating income was RO22.1m compared to RO20.6m in 2013. The reasons for the underlying movements were:

- Net fee income increased by RO1.0m compared to the previous year due to higher structuring and facility fees from Corporate customers
- Net trading income grew by RO0.1m from higher foreign exchange volumes compared to 2013
- Dividend and Other income increased by RO0.3m largely due to higher dividend income of RO0.7m, profit on sale of property of RO1.3m, which was partly offset by prior year gains on the sales of syndicated loans of RO1m and the sale of the Merchant Acquiring business of RO0.7m.

Loan impairment charges net of recoveries: A net charge of RO2.9m has been reported for loan impairment charges, which is comprised both of general provision charges of RO1.6m due to growth in the loan book and due to specific provision charges, net of recoveries, of RO1.3m. This compares to a net recovery in 2013 of RO2.2m, mainly from the release of the general provision of RO2.3m following the planned reduction in corporate loans and advances during 2013. Non-performing loans as a percentage of total loans reduced marginally from 8.7% in 2013 to 7.3% in 2014.

Operating expenses: Total operating expenses reduced by 4.3% to RO55.3m reflecting a tight focus on costs. The reduction was primarily due to a decrease in marketing and advertisement costs of RO1.5m, premises and equipment costs of RO0.6m and non-recurrence of operational losses and one-off expenses in 2013.

Total assets: HBON's total assets increased from RO2,220.9m to RO2,242.9m. The major increase in assets was comprised of RO180.8m in net loans and advances to customers and Cash and Central Bank balances of RO62.3m. This was partly offset by a reduction in financial investments of RO157.2m, balances due from banks of RO38.4m and other assets of RO22.3m. HBON's balance sheet composition has strategically changed from financial investments to better yielding customer assets.

Loans and advances: Customer lending increased by 18.4% from RO980.5m in 2013 to RO1,161.3m as at 31 December 2014, primarily due to an increase in corporate loans and advances. The major increases were seen in Import Trade, Construction and Services sector customers.

Customer deposits: Deposits from customers increased by 3.3% from RO1,792.7m in 2013 to RO1,852.3m for the year ended 31 December 2014. 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 2014, the cost efficiency ratio stood at 77.9% (2013: 84.2%), which was outside our target range. The Cost Efficiency Ratio was mainly impacted by operating revenue income being below target.

Capital Adequacy Ratio: HBON has maintained a high capital adequacy ratio at 18.2%, in line with HBON's policy of preserving capital strength to support future growth. In the near future, under Basel III guidelines, banks will be required to keep an additional capital conversion buffer over and above the minimum capital requirement. Our approach to managing capital is designed to ensure that we exceed current regulatory requirements and we are well placed to meet those which are expected in the future.

HBON's growth aspirations and conservative approach to managing its balance sheet require a strong capital base. Our financial performance in 2014 has kept HBON capitalised to support these aspirations. We seek to position ourselves to deliver sustainable shareholder returns over the coming years. Accordingly, HBON's dividend payout has been set in line with capital and growth targets to support these returns.

Retail Banking and Wealth Management

The Retail Banking & Wealth Management (RBWM) business continued to make progress in implementing HBON's strategy, with a strong focus on customer service, activity management and compliance.

In January, we launched a new way of serving retail banking customers reflecting our strategy to treat customers openly and fairly. Following an extensive training programme, employees in RBWM are no longer rewarded based on product sales, but on how they deliver customer service. They are encouraged to understand the financial needs of customers by having more valuable conversations about their requirements, to ensure that we are able to tailor the Bank's services to better meet these needs.

As a result of this new approach, we have seen a noticeable improvement in the levels of customer acquisition year-on-year, particularly in our key segments of Advance and Premier, along with significant growth in asset acquisition (namely loans, mortgages and cards) compared to 2013. This has been supported by significant 'back office' teamwork and support to provide our services more efficiently: for example, the time it now takes to process a customer's credit card application has been halved.

During the year, we re-launched our Premier proposition under a new theme – our client's personal economies. In Premier, we are focused on meeting the wealth management needs of our customers in five respects: protection, education, retirement, managing and growing wealth, and legacy planning. We also improved the platforms used by both customers and relationship managers, helping HBON to enhance the customer experience and raise the standards of our financial planning. In RBWM, we measure customer satisfaction through an independent market research survey of retail banking customers and calculate a Customer Recommendation Index (CRI). For Premier customers over the course of 2014, our CRI improved notably from 65% to 86% (with a positive improving trend also evident for customer service in our branch network). The CRI score is benchmarked against average scores of a peer group of banks.

Digital banking is becoming increasingly important and HBON has continued to invest in enhancing and developing its digital banking platforms. In 2014, we saw a 37% increase in the number of customers registering for personal internet banking and the number of digital transactions increased by 65% year-on-year. In addition to the launch of a new Arabic Mobile Banking application, customers now have access to an Arabic language public website, reinforcing our commitment to providing more services bilingually to our local customers. We also enhanced our Phone Banking service so it allows customers to experience a more advanced system that recognises customers' telephone numbers and directs them conveniently to their personalised options, resulting in shorter phone calls.

We also continued to invest significantly in our branch network through our branch refurbishment programme. During 2014, a further 12 branches were upgraded to provide a more modern, dynamic and appealing banking environment for our customers and employees alike. This investment is ongoing.

For 2015, RBWM will continue to focus on delivering an exceptional customer experience at all times and through all customer touchpoints – our branch network, call centres and digital banking channels.

Commercial Banking

HBON brings a unique and compelling competitive advantage to corporate clients in the Sultanate that no other bank can match. We have significant local expertise, established over the last 67 years operating in the Sultanate, combined with the international network and global capabilities of the HSBC Group. This international network, which covers over 90% of global trade and capital flows, enables HBON to be well positioned to capture these opportunities and serve our clients comprehensively as they grow from small enterprises into large multinationals.

Through 2014, we continued to strengthen our client relationships as we partnered with them to support their strategic objectives. This has enabled HBON to build a strong balance sheet and where we have seen good growth in loans to our customers year-on-year as we play our role in supporting the growth of Oman's economy for the future.

Our corporate team has seen this contribution recognised externally through industry awards including the "Best International Trade Finance Bank in Oman" from the GTR MENA Leaders in Trade Awards, as well as "Best Corporate Account" in the Oman Product Awards from Banker Middle East. In addition, HBON won the "Best Domestic Cash Management Bank" in the Sultanate, from the Euromoney 2014 Cash Management Survey for the third year in a row.

We continued to deliver a level of sophistication to our clients through our host-to-host capabilities, providing them with valuable information to help manage their finances more effectively, and with greater knowledge and consistency. In addition, clients continued to enjoy the advantages of HSBCnet, our 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, anywhere in the world. As the world becomes more "digital", we are seeing an increasingly amount of client activity through this kind of channel, enhancing the speed and accuracy of transactions as well as enabling account activity to be monitored and managed 7 days a week, 24 hours a day, at the client's convenience.

In November 2014, we were delighted to announce the launch of our International Growth Fund, committing RO 20 million to Oman's international and internationally aspirant SMEs (Small and Medium Enterprises). This fund was established for new and existing customers with cross border trading requirements, or those that aspire to grow internationally, and which have a turnover of RO 1 million and above.

SMEs are critical to the future of Oman's economy. They play an important role and have a unique opportunity to increase their contribution to its growth and diversification, and this fund seeks to actively support them in this ambition. Additionally, we initiated a quarterly seminar – the "Growth Series" – where our clients have the chance to listen and interact with leading industry experts to help them grow and expand their businesses.

In 2015, we will continue to exploit the unique advantage of our local expertise combined with HSBC Group's international connectivity to the benefit of our corporate clients in Oman, from multinationals through to SMEs.

Global Banking & Markets

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

Our clients continue to have access to economic research and best-in-class product expertise delivered out of Dubai and the rest of the HSBC Group. The research helps our clients develop strategies and implement investment decisions in the region. 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. HBON applies the highest compliance standards, services its clients in line with clear conduct procedures and is committed to local and global standards of business.

HSBC Technology and Services (HTS)

Primarily led through the HTS team, we continue to refine our operational processes and procedures to identify sustainable savings across HBON. These are the financial outputs from our organisational effectiveness and streamlining programmes. They arise from the reduction or elimination of complexity, inefficiencies or unnecessary activities, and release capital that can be invested in growing our business as well as increasing returns to shareholders.

HBON has continued to invest significantly in its infrastructure in the Sultanate to deliver a robust platform on which our customers can transact. We continue to upgrade our communications network, our digital platforms and our ATMs. Digital banking is seen increasingly as a differentiator between banks and in Oman, HBON is able to leverage the material IT investments of the HSBC Group to the benefit of our clients locally. Further, in 2014, HBON maintained its programme to upgrade the ATM network with a further 16 new ATMs introduced to help serve customers more effectively.

The Customer Collection Point adjacent to HBON's headquarters, which we opened in 2013, enables customers in Muscat to collect their credit/debit cards, cheque books and telephone banking pins at their convenience. We continue to receive positive customer feedback about this unique service.

A significant amount of work has been focused on making better use of paper in HBON, driving out waste and printing in more environmentally friendly ways. A project to reduce the number of reports produced in paper format, for example, has resulted in a reduction of some 2.2 million pages this year, on an annualised basis, and this will continue and increase further in 2015.

Human Resources

At HBON, we are focused on developing a values-led high performance culture. To achieve this, we continue to work to embed our Values in every decision and interaction between colleagues and with customers.

We are committed to offering our employees, and prospective employees, a working and cultural environment that is both challenging and rewarding, encourages professional and personal development, and is supported by tailored learning opportunities to help employees realise their career ambitions. During 2014, HBON employees took advantage of a variety of different training activities and through alternative media. For example, employees averaged over 3 days of face-to-face classroom training, equating to around 2,000 learning days, and via the HSBC e-learning portal learning. In addition, employees benefited from a range of on-the-job and Branch Compliance Officer training activities as well as support pursuing professional qualifications. All HBON employees have regular access to e-learning modules developed by the Group as well to the global "Academies" of development opportunities. Employees have also benefited from training opportunities overseas, including at HSBC's Group and Regional offices as well as other HSBC entities elsewhere, along with attachments for certain roles to take advantage of the Group's international expertise in particular fields.

The development of our employees is essential to facilitate the growth ambitions of HBON. We take a systematic approach to identifying, developing and deploying talented employees to ensure we have a strong supply of high calibre individuals with the values, skills and experience for current and future senior management positions. During the year, we were delighted to announce Omani appointments into the General Manager roles for RBWM and Risk Management.

We actively manage succession planning by defining the capabilities we need and complementing this by identifying talented individuals and ensuring they are provided with appropriate career and development opportunities to fulfil their potential. Our talent strategy aims to ensure that high-quality candidates are available to fill key positions and meet business needs across all areas of HBON. We closely align succession planning with talent management, individual development and career planning.

We are committed to a diverse and inclusive culture reflective of our customer base, where employees can be confident that their views are encouraged, their concerns are attended to and they work in an environment where bias, discrimination or harassment on any matter are not tolerated and where advancement is based on merit. One area of continued focus is gender representation, particularly at senior levels. We are addressing bias in hiring, promotions and talent identification, expanding mentoring and sponsorship. At the end of 2014, a new Employee Resource Group called "Balance" was established in HBON to help support and promote gender diversity in the Bank.

We remain fully cognisant of our role in Oman and the need to actively participate in supporting the national people agenda. HBON is focused on identifying and developing existing Omani talent and on strengthening talent development with local and overseas programmes.

Internal Control

Our management of risk is reflected in our strategic priorities. We ensure that risk is maintained at appropriate levels while HBON is positioned for growth and capital is deployed accordingly to maximise revenue opportunities. Our management of financial crime risk is strengthened by the implementation of Global Standards, which are enhancing the procedures, policies, capabilities and controls that govern how we do business and with whom. In this regard, it is reassuring to note that the Basel AML Index 2014 rated Oman as the country with the lowest risk in the GCC in terms of money laundering and terrorist financing, and 29th globally (out of 162 countries).

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

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

- *First line* – every employee is responsible for the risks that are part of their day jobs. The first line of defence ensures that all key risks within their operations are identified, mitigated and monitored by appropriate internal controls within an overall control environment

- *Second line* – functional teams, such as Risk, Finance and Human Resources form the second line of defence. They have similar responsibilities to the first line of defence for the processes and activities they own. In addition, they are responsible for setting policy and providing oversight and challenge of the activities conducted by the first line.

- *Third line* – Internal Audit forms the third line of defence, providing independent assurance to senior management and the HBON Board over the design and operations of HBON's risk management, governance and internal control processes.

Business Continuity Planning

HBON fully recognises the importance of maintaining a comprehensive Business Continuity programme in an integrated global financial services business environment. HBON has well established Business Continuity Management (BCM) practices, procedures and policies that provide appropriate resilience and recovery for critical business processes, systems and data.

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:

- Implementing BCM automation tools like the Global Business Resilience Tool and Emergency Notification System.
- Conducting Business Impact Analysis 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.

Our Operations in India and Pakistan

In April 2014, we announced the potential sale of our business in India to Doha Bank QSC. Unanimous shareholder approval was received at an Extraordinary General Meeting in October. The process of sale is complicated, involving as it does laws and regulations in India, Qatar and Oman. However, good progress has been made and we are confident of completing the process in the first half of 2015.

In November, we also announced that we were in preliminary discussions to sell our dormant business in Pakistan. This remains work in progress.

Corporate Sustainability

At HBON, we understand that the success of our business is closely connected to the economic, environmental and social landscape in which we operate. For us, long-term corporate sustainability means achieving a sustainable return on equity and profit growth so that we can continue to reward shareholders and employees, build long-lasting relationships with customers and suppliers, pay our taxes, and invest in communities for future growth. The way we do business is as important as what we do: our responsibilities to our customers, employees and shareholders, as well as the communities in which we operate go far beyond simply being profitable.

HBON's Corporate Sustainability strategy looks to deliver both short-term and long-term value with a specific focus on three areas - education, the environment and community development.

In 2014, almost 170 employees volunteered their time and contributed over 860 hours of support to various corporate sustainability initiatives. For the 4th year, and in association with the British Council, we supported "Kids Read", a regional award-winning reading programme for government primary schoolchildren, taking it outside the Muscat Governate for the first time. A partnership was signed with the Oman Water Society to renovate Al Maidan Falaj in Wilayat Nakhal, where our employees provided help to repair and enhance the flow of water by developing existing underground supplies, while also encouraging agricultural production in cultivated areas that are experiencing excessively dry weather conditions.

In addition, we signed an agreement with Outward Bound Oman to jointly operate a "Journey to Discovery" course, aimed at Omani schoolchildren to equip them with essential life skills for their future. In December 2014, once again working with the British Council, along with support from an Oman-based NGO, Children First, we launched a short story competition for young Omanis to provide them with an opportunity to showcase their writing and story-telling skills.

Looking Ahead

Government expenditure for 2015 is estimated at RO14.1 billion with a projected budget deficit of RO2.5 billion. The deficit will be covered by borrowing and general reserves and despite the dramatic fall in oil prices in the fourth quarter of 2014, the government shows no inclination in halting progress on planned developments.

The 2015 budget continues the Sultanate's strategy of diversification away from Oil and Gas. There is a clear focus on supporting growth in new sectors to help deliver GDP growth of 5% against a projected 4.4% for 2014. Oil and gas revenues are expected to reduce by 5% but at RO9.2 billion still represent 79% of total revenue. Crude oil revenue has been calculated on the basis of a daily average oil production of 980,000 barrels in 2015. Tax revenues of RO1.3 billion are 28.5% higher than in 2014 with Income taxes up by 25% (versus 14% in 2014 and a 3% increase in 2013).

Overall expenditure is planned to grow by 4.4% to RO14.1 billion with Education, notably, up 27% to RO1.8 billion – a clear sign of the long-term focus of the government. Social Security, Health and Pensions expenditure is also up materially (16.8%, 16.6% and 28.9% respectively). In the Private Sector, there is a strong emphasis on Tourism.

In the coming year, HBON, while seeking to deliver on the long-term growth plans of the business in Oman, is also focused on managing in a new environment of low oil prices. We will strive to connect customers to relevant local and international opportunities, while remaining absolutely focused on delivering an increasingly consistent and superior customer experience as we aim to become the leading bank in Oman.

Andrew P Long
Chief Executive Officer


HSBC

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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 related Disclosures ("the Disclosures") of HSBC Bank Oman SAOG (the "Bank") set out on the pages 33 to 51 as at and for the year ended 31 December 2014. 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.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman; 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.

26 January 2015

KPMG

C.R. No. 1/30936/6

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

For the year ended 31 December 2014

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 on 3 June 2012 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)

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

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

Tier II capital comprises of general loan loss provisions and cumulative fair value gains on available for sale 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%.

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

For the year ended 31 December 2014

The Composition of the Capital structure is as follows:

	RO in 000's
Paid up share capital	200,031
Legal reserve	35,933
Retained earnings	58,292
Regulatory adjustments to CET1	(13,132)
CET1 capital	**281,124**
Additional Tier 1 capital	-
Total Tier 1 capital	**281,124**
Fair value reserve for available-for -sale equity securities	1,985
Collective allowances for impairment	15,880
Tier 2 capital	**17,865**
Total regulatory capital	**298,989**

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

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

For the year ended 31 December 2014

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 details of capital, risk weighted assets and capital adequacy ratio as at 31 December 2014 are as follows:

RO '000

Details	Gross balance (Book value)	Net balances (Book value)*	Risk weighted assets
On-balance sheet items	2,215,123	2,186,188	1,213,701
Off-balance sheet items	396,060	392,223	288,750
Derivatives	3,556	3,556	3,556
Total	**2,614,739**	**2,581,967**	**1,506,007**
Market risk			6,702
Operational risk			126,319
Total			**1,639,028**
CET 1 capital			281,124
Additional Tier 1 capital			-
Total Tier 1 capital			**281,124**
Tier 2 capital			**17,865**
Total regulatory capital			**298,989**
Capital requirement for credit risk			190,133
Capital requirement for market risk			846
Capital requirement for operational risk			15,948
Total required capital			**206,927**
CET1 / Tier 1 Capital ratio			**17.15%**
Tier 1 Capital ratio			**17.15%**
Total capital ratio			**18.24%**

*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 30 of the financial statements.

Credit Risk

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

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

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

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

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

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

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

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

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

Risk reporting

In addition to the quantitative disclosures and other reporting/returns submitted to our regulators in Oman, the Bank provides various reports to HSBC Regional 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

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

For the year ended 31 December 2014

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

RO '000

Type of Credit Exposure	Average gross exposure		Total gross exposure as at	
	31 Dec 2014	31 Dec 2013	**31 Dec 2014**	31 Dec 2013
Overdraft	**87,338**	88,085	**79,453**	87,992
Personal loans*	**438,155**	417,678	**449,747**	431,981
Loans against trust receipts	**131,329**	132,333	**133,920**	88,774
Other loans	**494,410**	492,062	**554,517**	448,426
Bills purchased / discounted	**33,160**	27,810	**43,522**	24,302
Total	**1,184,392**	1,157,968	**1,261,159**	1,081,475

*Personal loans are excluding the personal overdrafts of RO 7,061K (31 Dec 2013: RO 5,029K) which has been included under Overdrafts.

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

For the year ended 31 December 2014

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	78,746	-	-	-	707	-	**79,453**
Personal loans*	447,056	1,482	989	45	-	175	**449,747**
Loans against trust receipts	133,920	-	-	-	-	-	**133,920**
Other loans	523,955	11	28,875	1,495	181	-	**554,517**
Bills purchased / discounted	38,050	3,706	524	1,094	-	148	**43,522**
Total	**1,221,727**	**5,199**	**30,388**	**2,634**	**888**	**323**	**1,261,159**

*Personal loans are excluding the personal overdrafts of RO 7,061Kwhich has been included under Overdrafts.

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

RO '000

Economic Sector	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Import trade	29,903	118,923	13,596	162,422	66,458
Export trade	390	49	7,055	7,494	-
Wholesale & retail trade	10,249	29,311	118	39,678	18,207
Mining & quarrying	818	18,486	-	19,304	1,390
Construction	8,437	70,500	3,559	82,496	59,099
Manufacturing	2,898	157,747	9,700	170,345	16,505
Electricity, gas and water	2,812	71,446	-	74,258	714
Transport and communication	520	12,694	-	13,214	11,248
Financial institutions	16	-	-	16	-
Services*	4,963	159,577	8,685	173,225	207,398
Personal loans**	7,061	447,101	-	454,162	681
Agriculture and allied activities	997	1,054	-	2,051	34
Government	-	18,269	-	18,269	44,227
Non-resident lending*	-	33,027	-	33,027	-
All others	10,389	-	809	11,198	11,651
Total	**79,453**	**1,138,184**	**43,522**	**1,261,159**	**437,612**

*Services sector does not include loans of RO 30,381K, which has been included under the head non-resident lending.

**The personal loans does not includes non resident housing loans of RO 2,646K, which has been included under the head non-resident lending.

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

For the year ended 31 December 2014

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

RO '000

Time Band	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Upto1 month	20,974	210,482	32,630	264,086	132,302
1-3 months	-	41,418	9,830	51,248	74,006
3-6 months	-	85,967	863	86,830	64,655
6-9 months	-	18,099	-	18,099	20,262
9-12 months	-	3,911	-	3,911	80,977
1-3 years	-	112,703	-	112,703	56,072
3-5 years	-	546,897	-	546,897	8,394
5 years	-	-	-	-	-
Over 5 years	58,479	118,707	199	177,385	944
Total	**79,453**	**1,138,184**	**43,522**	**1,261,159**	**437,612**

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	162,422	29,592	1,322	10,819	14,799	213	1,347
Export trade	7,494	439	71	400	39	-	-
Wholesale & retail trade	39,678	6,348	324	564	5,680	45	862
Mining & quarrying	19,304	-	193	-	-	-	-
Construction	82,496	21,994	587	10,863	9,593	369	9,151
Manufacturing	170,345	4,898	1,642	2,387	1,944	417	1,157
Electricity, gas and water	74,258	3,554	707	616	2,938	-	-
Transport and communication	13,214	2,363	108	1,531	804	28	97
Financial institutions	16	-	-	-	-	-	-
Services*	173,225	4,708	1,682	1,541	2,739	1,960	394
Personal loans**	454,162	5,389	8,690	3,520	861	4,004	3,591
Agriculture and allied activities	2,051	1,196	9	420	517	221	90
Government	18,269	-	183	-	-	-	-
Non-resident lending*	33,027	1,506	341	1,410	96	-	-
All others	11,198	10,586	21	2,121	7,764	590	535
Total	**1,261,159**	**92,573**	**15,880**	**36,192**	**47,774**	**7,847**	**17,224**

*Services sector does not include loans of RO 30,381K, which has been included under the head non-resident lending.
**The personal loans does not includes non resident housing loans of RO 2,646K, which has been included under the head non-resident lending.
*** Provisions made during the year contains both specific and general provision made during the year.

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

For the year ended 31 December 2014

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	1,221,727	90,179	15,877	33,990	47,581	7,846	17,224
Other GCC countries	5,199	11	-	7	5	-	-
OECD countries	30,388	-	-	-	-	-	-
India	2,634	1,495	3	1,403	92	-	-
Pakistan	888	888	-	792	96	1	-
Others	323	-	-	-	-	-	-
Total	**1,261,159**	**92,573**	**15,880**	**36,192**	**47,774**	**7,847**	**17,224**

*Provisions made during the year contains both specific and general provision made during the year.

Movements of Gross Loans:

RO '000

Details	Performing loans		Non-performing loans			
	Standard	S.M	Sub-standard	Doubtful	Loss	Total
Opening balance	**963,316**	**23,491**	**3,458**	**1,745**	**89,465**	**1,081,475**
Migration / changes (+/-)	(29,147)	11,262	5,534	1,884	10,500	**33**
New loans	908,380	41,883	-	-	-	**950,263**
Recovery of loans	723,574	27,025	1,092	696	1,001	**753,388**
Loans written off	-	-	3,679	-	13,545	**17,224**
Closing balance	**1,118,975**	**49,611**	**4,221**	**2,933**	**85,419**	**1,261,159**
Provisions held	**16,371**	**368**	**2,148**	**1,463**	**31,722**	**52,072**
Reserve Interest	**344**	**31**	**188**	**428**	**46,783**	**47,774**

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 RO1,506m as at 31 December 2014 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 the15 days preceding the drawn down. For both mortgage and financial instruments values should have margin cover applied as defined in the Banks Lending Guidelines.

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

The total value of eligible financial collateral, for example deposits under lien and other bank guarantees, for the credit risk portfolio is RO 32.77m.

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

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

Market risks in the trading book

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

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

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

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

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

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

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

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

The VAR for Global markets was as follows:

	2014 RO'000	**Average RO'000**	**Maximum RO'000**	**Minimum RO'000**	2013 RO'000	Average RO'000	Maximum RO'000	Minimum RO'000
Total VAR	**614**	**458**	**666**	**203**	205	233	368	101
Trading VAR	**-**	**2**	**6**	**-**	3	4	23	-

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

For the year ended 31 December 2014

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:

	2014	2013
	RO'000	RO'000
1% UP - Increase in NII by	**474**	2,186
1% DOWN - Decrease in NII by	**(113)**	(1,245)
<u>Ramp up scenario</u>		
25bp increase per quarter	**296**	1,366
25bp decrease per quarter	**(296)**	(1,366)

The capital requirements for market risk are as follows:

	RO '000
Interest rate risk	-
Equity position risk	-
Commodities position risk	-
Foreign exchange risk	536
Total	**536**

Liquidity Risk:

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

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

The management of liquidity risk is set out in note 30.4 of 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

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

For the year ended 31 December 2014

- 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 2014.
- 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. The capital requirement of RO 15.9m is based on the average gross income for the three year period ending 31 December 2014.

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

Basic Indicator Approach calculation

RO '000

Year	Business line	Total gross income	Total gross (after negative GI adjustment)	Alpha	Capital charge
2012	Total business	60,940	60,940	15.00%	9,141
2013	Total business	69,864	69,864	15.00%	10,480
2014	Total business	71,306	71,306	15.00%	10,696
Number of years with positive total gross income					3
Basic Indicator approach capital charge @ 12.50					10,105.6
Total Risk Weighted Assets - Operational Risk					126,319

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

For the year ended 31 December 2014

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	58,292	
3	Accumulated other comprehensive income (and other reserves)	35,933	
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**	**294,256**	**-**
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(5)	(7)
8	Goodwill (net of related tax liability)	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(4,038)	(6,056)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(1,210)	(1,816)
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	-	-

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

For the year ended 31 December 2014

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	(7,879)	(7,879)
28	**Total regulatory adjustments to Common equity Tier 1**	**(13,132)**	
29	**Common Equity Tier 1 capital (CET1)**	**281,124**	
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards [5]	-	
32	of which: classified as liabilities under applicable accounting standards [6]	-	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	-	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	(7,879)	-
	OF WHICH: Prudential valuation adjustments	(7)	-
	OF WHICH : Other intangibles other than mortgage-servicing rights (net of related tax liability)	(6,056)	-
	OF WHICH: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(1,816)	-
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)**	**281,124**	

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

For the year ended 31 December 2014

	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)*	17,865	
51	**Tier 2 capital before regulatory adjustments**	**17,865**	
	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)**	**17,865**	
59	**Total capital (TC = T1 + T2)**	**298,989**	
	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)**	**1,639,028**	
60a	*Of which: Credit risk weighted assets*	1,506,007	
60b	*Of which: Market risk weighted assets*	6,702	
60c	*Of which: Operational risk weighted assets*	126,319	
Capital Ratios			
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**17.15%**	
62	**Tier 1 (as a percentage of risk weighted assets)**	**17.15%**	

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

For the year ended 31 December 2014

63	**Total capital (as a percentage of risk weighted assets)**	**18.24%**	
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)*	-	

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

For the year ended 31 December 2014

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 31.12.2014	As at 31.12.2014	
Assets			
Cash and balances with CBO	180,007	180,007	
Balance with banks and money at call and short notice	155,902	155,902	
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:	666,151	666,151	
Investments in Subsidiaries	-	-	
Investments in Associates and Joint Ventures	-	-	
Held for Trading	-	-	
Loans and advances of which :	1,261,159	1,261,159	
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks	-	-	
Loans and advances to domestic customers	-	1,205,429	
Loans and advances to non-resident customers for domestic operations	-	-	
Loans and advances to non-resident customers for operations abroad	-	33,027	
Loans and advances to SMEs	-	22,703	
Financing from Islamic banking window	-	-	
Provision against Loans and advances of which:	**(99,846)**	**(99,846)**	
Provision for Loan impairment - Specific	(36,192)	(36,192)	
Provision for Loan impairment – general	(15,880)	(15,880)	
Reserve Interest	(47,774)	(47,774)	
Fixed assets	30,012	30,012	
Other assets of which:	49,527	49,527	
Goodwill and intangible assets Out of which:			
goodwill			**a**
Other intangibles (excluding MSRs)	10,094	10,094	**b**

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2014

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at 31.12.2014	As at 31.12.2014	
Deferred tax assets	3,026	3,026	
Goodwill on consolidation			
Debit balance in Profit & Loss account			
Total Assets	**2,242,912**	**2,242,912**	
Capital & Liabilities			
Paid-up Capital Of which:			
Amount eligible for CET1	200,031	200,031	h
Amount eligible for AT1	-	-	i
Reserves & Surplus	109,846	109,846	
Total Capital	309,877	309,877	
Deposits Of which:			
Deposits from banks	29,966	25,708	
Customer deposits	1,852,339	1,852,339	
Deposits of Islamic Banking window	-	-	
Other deposits(please specify)	-	-	
Borrowings Of which:		4,258	
From CBO	-	-	
From banks	-	4,258	
From other institutions & aagencies	-	-	
Borrowings in the form of bonds, Debentures and sukuks	-	-	
Others (Please specify)	-	-	
Other liabilities & provisions Of which:	50,730	50,730	
DTLs related to goodwill	-	-	c
DTLs related to intangible assets	-	-	d
TOTAL	**2,242,912**	**2,242,912**	

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

For the year ended 31 December 2014

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	58,292	
3	Accumulated other comprehensive income (and other reserves)	35,933	
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**	**294,256**	
7	Prudential valuation adjustments	(5)	
8	Goodwill (net of related tax liability)	-	**(a-c)**
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(4,038)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(1,210)	
11	Regulatory adjustments applied to Common Equity Tier 1 and Tier 2 to cover deductions	(7,879)	
	Common Equity Tier 1 capital (CET1)	**281,124**	

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

For the year ended 31 December 2014

Annexure III

1	**Issuer**	
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	-
4	Transitional Basel III rules	-
5	Post-transitional Basel III rules	-
6	Eligible at solo/group/group & solo	-
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	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

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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 53 to 94, which comprise the statement of financial position as at 31 December 2014, 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 2014, 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 2014, in all material respects, comply with:

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

26 January 2015

Khalid Masud Ansari

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

2013 US$'000	2014 US$'000		Notes	2014 RO'000	2013 RO'000
148,410	**145,730**	Interest income		**56,106**	57,138
(23,506)	**(18,813)**	Interest expense		**(7,243)**	(9,050)
124,904	**126,917**	**Net interest income**		**48,863**	48,088
29,912	**32,629**	Net fee income		**12,562**	11,516
18,452	**18,769**	Net trading income		**7,226**	7,104
426	**2,151**	Dividend income		**828**	164
4,831	**3,934**	Other operating income	*3*	**1,515**	1,860
178,525	**184,400**	**Net operating income before loan impairment charges and other credit risk provisions**		**70,994**	68,732
5,813	**(7,577)**	Loan impairment (charges) and other credit risk provisions - net of recoveries	*4*	**(2,917)**	2,238
184,338	**176,823**	**Net operating income**		**68,077**	70,970
(144,299)	**(137,657)**	Operating expenses	*5*	**(52,998)**	(55,555)
(5,935)	**(5,935)**	Amortisation and impairment of intangible assets	*7*	**(2,285)**	(2,285)
(150,234)	**(143,592)**	**Total operating expenses**		**(55,283)**	(57,840)
34,104	**33,231**	**Profit before tax**		**12,794**	13,130
(5,888)	**(1,416)**	Tax expense	*6*	**(545)**	(2,267)
28,216	**31,815**	**Profit for the year**		**12,249**	10,863
		Other comprehensive income/(expense)			
		Items that will be reclassified subsequently to profit or loss when specific conditions are met			
		Available-for-sale investments			
10,332	**(1,247)**	- Fair value (loss) / gain		**(480)**	3,978
-	**(179)**	- Fair value gain transferred to profit or loss		**(69)**	-
(1,421)	**208**	- Income tax		**80**	(547)
(1,517)	**(803)**	Effect of currency translation		**(309)**	(584)
		Items that will not be reclassified subsequently to profit or loss			
-	**423**	Remeasurement of defined benefit liability		**163**	-
35,610	**30,217**	**Total comprehensive income for the year**		**11,634**	13,710
US$ 0.013	**US$ 0.016**	**Earnings per share - basic**	*8(a)*	**RO 0.006**	RO 0.005

The accompanying notes on pages 57 to 94 form an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2014

2013 US$'000	2014 US$'000		Notes	2014 RO'000	2013 RO'000
		Assets			
305,530	**467,551**	Cash and balances with central banks		**180,007**	117,629
504,704	**404,940**	Due from banks	*9*	**155,902**	194,311
2,546,681	**3,016,397**	Loans and advances to customers - net	*10*	**1,161,313**	980,472
2,138,470	**1,730,262**	Financial investments	*11*	**666,151**	823,311
160,306	**102,423**	Other assets	*12*	**39,433**	61,718
32,153	**26,218**	Intangible assets	*13*	**10,094**	12,379
80,696	**77,954**	Property and equipment	*14*	**30,012**	31,068
5,768,540	**5,825,745**	**Total assets**		**2,242,912**	2,220,888
		Liabilities and equity			
		Liabilities			
108,649	**77,834**	Due to banks	*15*	**29,966**	41,830
4,656,371	**4,811,270**	Deposits from customers	*16*	**1,852,339**	1,792,703
209,112	**131,765**	Other liabilities	*17*	**50,730**	80,508
4,974,132	**5,020,869**	**Total liabilities**		**1,933,035**	1,915,041
		Equity			
519,561	**519,561**	Share capital	*18*	**200,031**	200,031
87,686	**90,868**	Legal reserve	*19(a)*	**34,984**	33,759
3,860	**3,756**	Statutory reserve	*19(b)*	**1,446**	1,486
-	**(1,291)**	Foreign exchange reserve	*19(c)*	**(497)**	-
13,158	**11,940**	Available-for-sale fair value reserve	*19(d)*	**4,597**	5,066
170,143	**180,042**	Retained profits		**69,316**	65,505
794,408	**804,876**	**Total equity**		**309,877**	305,847
5,768,540	**5,825,745**	**Total equity and liabilities**		**2,242,912**	2,220,888
US$ 0.397	**US$ 0.402**	**Net assets per share**	*8(b)*	**RO 0.155**	RO 0.153
		Off-balance sheet items:			
		Contingent liabilities and commitments			
241,678	**291,644**	- Documentary credits		**112,283**	93,046
710,925	**845,010**	- Guarantees		**325,329**	273,706
2,807,114	**2,980,418**	- Others		**1,147,461**	1,080,739
3,759,717	**4,117,072**		*20(a)*	**1,585,073**	1,447,491

The accompanying notes on pages 57 to 94 form an integral part of these financial statements.

The financial statements were authorised for issue on 26 January 2015 in accordance with a resolution of the Board of Directors.

David Gordon Eldon
Chairman

Andrew P Long
Chief Executive Officer

Statement of Changes in Equity
For the year ended 31 December 2014

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Foreign exchange reserve RO'000	Available-for-sale fair value reserve RO'000	Retained profits RO'000	Total RO'000
At 1 January 2013	200,031	32,673	1,236	-	1,635	58,562	294,317
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	10,863	10,863
Other comprehensive income / (expense) for the year							
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)	-
Transfer from retained profits	-	1,086	250	-	3,431	8,943	13,710
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2013	-	-	-	-	-	(2,000)	(2,000)
At 31 December 2013	200,031	33,759	1,486	-	5,066	65,505	305,847
Total comprehensive income for the year							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**12,249**	**12,249**
Other comprehensive income / (expense) for the year							
Effect of currency translation	**-**	**-**	**(40)**	**(269)**	**-**	**-**	**(309)**
Net movement in fair value of available-for-sale investments (net of tax)	**-**	**-**	**-**	**-**	**(469)**	**-**	**(469)**
Remeasurement of defined benefit liability	**-**	**-**	**-**	**-**	**-**	163	**163**
Total other comprehensive income for the year	**-**	**-**	**(40)**	**(269)**	**(469)**	163	**(615)**
Total comprehensive income for the year	**-**	**-**	**(40)**	**(269)**	**(469)**	12,412	**11,634**
Transfer to legal reserve	**-**	**1,225**	**-**	**-**	**-**	**(1,225)**	**-**
Transfer from retained profits	**-**	**-**	**-**	**(228)**	**-**	**228**	**-**
	-	**1,225**	**(40)**	**(497)**	**(469)**	**11,415**	**11,634**
Transaction with shareholders, recorded directly in equity							
Dividend paid for 2013	**-**	**-**	**-**	**-**	**-**	**(7,604)**	**(7,604)**
At 31 December 2014	**200,031**	**34,984**	**1,446**	**(497)**	**4,597**	**69,316**	**309,877**
At 31 December 2014 (US$'000)	**519,561**	**90,868**	**3,756**	**(1,291)**	**11,940**	**180,042**	**804,876**
At 31 December 2013 (US$'000)	519,561	87,686	3,860	-	13,158	170,143	794,408

The accompanying notes on pages 57 to 94 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2014

2013 US$'000	**2014 US$'000**		*Note*	**2014 RO'000**	2013 RO'000
		Cash flows from operating activities			
34,104	**33,231**	Profit before tax		**12,794**	13,130
		Adjustments for:			
9,145	**15,919**	- non-cash items included in profit before tax		**6,129**	3,521
891,086	**(419,413)**	- change in operating assets		**(161,474)**	343,068
(525,703)	**78,057**	- change in operating liabilities		**30,052**	(202,396)
-	**(566)**	- income tax paid		**(218)**	-
408,632	**(292,772)**	Net cash (used in) / generated from operating activities		**(112,717)**	157,323
		Cash flows used in investing activities			
(17,893,616)	**(17,481,301)**	Purchase of financial investments		**(6,730,301)**	(6,889,042)
17,533,456	**17,888,083**	Proceeds from maturity of financial investments		**6,886,912**	6,750,381
(11,883)	**(5,673)**	Purchase of property, plant and equipment		**(2,184)**	(4,575)
-	**5,133**	Proceeds from sale of property, plant and equipment		**1,976**	-
(535)	**(647)**	Effect of currency translation		**(249)**	(206)
(372,578)	**405,595**	Net cash generated / (used in) from investing activities		**156,154**	(143,442)
		Cash flows from financing activities			
(5,195)	**(19,751)**	Dividend paid		**(7,604)**	(2,000)
(5,195)	**(19,751)**	Net cash used in financing activities		**(7,604)**	(2,000)
30,859	**93,072**	**Net change in cash and cash equivalents**		**35,833**	11,881
629,462	**660,322**	Cash and cash equivalents at the beginning of the year		**254,224**	242,343
660,321	**753,394**	Cash and cash equivalents at the end of the year	*25*	**290,057**	254,224

The accompanying notes on pages 57 to 94 form an integral part of these financial statements.

Notes to the Financial Statements
As of 31 December 2014

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.

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 policies

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

2.1 Basis of preparation

(a) Statement of compliance

The financial statements of the Bank at 31 December 2014 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) disclosed in the financial statements have been translated from Rial Omani at the exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

(c) Accounting for Business combination

The purchase method of accounting is used to account for the business combination. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the statement of 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.

(d) 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

2 Summary of significant accounting polices *(continued)*

2.1 Basis of preparation *(continued)*

(d) Use of estimates and assumptions (continued)

valuation of intangible assets recognised in business combinations, the useful lives of intangible assets, impairment of loans and advances, the valuation of financial instruments and the impairment of available-for-sale financial assets.

(e) Accounting developments

At 31 December 2014, 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 2014.

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 potential effect at the date of approval of these 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. 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 effect at the date of the approval of these financial statements.

2.2 Foreign currency transactions

2.2.1 Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of 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 statement of profit or loss as a reclassification adjustment when the gain or loss on disposal is recognised.

2.3 Financial instruments

All financial instruments are recognised initially at fair value. 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

2 Summary of significant accounting polices *(continued)*

2.3 Financial instruments *(continued)*

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.

2.3.1 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

2 Summary of significant accounting polices *(continued)*

2.3 Financial instruments *(continued)*

2.3.2 Loans and advances to banks and customers (continued)

trade but hold the loan, a provision on the loan commitment is only recorded where it is probable that the Bank will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the held portion is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. For certain transactions, such as leverage finance and syndicated lending activities, the cash advanced is not necessarily the best evidence of the fair value of the loan. For these loans, where the initial fair value is lower than the cash amount advanced (for example, due to the rate of interest charged on the loan being below the market rate of interest), the write-down is charged to the statement of 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.

2.3.3 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 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 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 other comprehensive income, is removed from other comprehensive income and recognised in the statement of profit or loss.

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

Notes to the Financial Statements (continued)
As of 31 December 2014

2 Summary of significant accounting polices *(continued)*

2.3 Financial instruments *(continued)*

2.3.3 Available-for-sale financial assets (continued)

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.

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

Notes to the Financial Statements (continued)

As of 31 December 2014

2 Summary of significant accounting polices *(continued)*

2.3 Financial instruments *(continued)*

2.3.3 Available-for-sale financial assets (continued)

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.

2.4 Derivative financial instruments and hedge accounting

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

Hedge accounting

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

2 Summary of significant accounting polices *(continued)*

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

Fair value hedge *(continued)*

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.

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.

2.10 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 – 7 years
Computer software and equipment	- 3 – 5 years

Computer software includes both purchased and internally generated software. The cost

2 Summary of significant accounting polices *(continued)*

2.10 Property and equipment *(continued)*

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 the Bank 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.

2.12 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 Summary of significant accounting polices *(continued)*

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:

- 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.

Notes to the Financial Statements (continued)
As of 31 December 2014

2 Summary of significant accounting polices *(continued)*

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.

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

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

2.18 Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Asset Liability Committee ('ALCO'), the Chief Operating decision maker, to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the ALCO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses, and income tax assets and liabilities.

Notes to the Financial Statements (continued)

As of 31 December 2014

3 Other operating income

	2014 RO'000	2013 RO'000
Profit on sale of property and equipment	**1,271**	3
Gain on sale of syndicated loans	**17**	1,013
Gain on sale of merchant acquiring business	**-**	704
Gains on sale of financial investments	**67**	-
Other income	**160**	140
	1,515	1,860

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

	2014 RO'000	2013 RO'000
Provided during the year – general (note 10)	**(1,644)**	-
Provided during the year – specific (note 10)	**(6,203)**	(6,874)
Provisions released / written back (note 10)	**1,622**	6,066
Adjustments as a result of fair value unwind	**979**	231
Reserved interest released	**380**	1,132
Written-off loans recovered	**2,083**	1,806
Bad debts directly written off to statement of profit or loss	**(134)**	(123)
	(2,917)	2,238

5 Operating expenses

	2014 RO'000	2013 RO'000
Employee compensation and benefits	**(24,172)**	(21,468)
Depreciation and impairment of property and equipment	**(2,198)**	(3,474)
Marketing and advertising*	**(2,543)**	(4,010)
Premises and equipment	**(4,662)**	(5,261)
Communications	**(860)**	(1,064)
Insurance	**(1,161)**	(1,321)
Other administrative expenses	**(17,402)**	(18,957)
	(52,998)	(55,555)

*Marketing and advertising expenses for the current period include RO1.7m of "Mandoos Prize" draw expenses which was previously reported as interest expense up until March 2013 (RO0.6m).

Notes to the Financial Statements (continued)
As of 31 December 2014

6 Taxation

	2014 RO'000	2013 RO'000
Statement of profit or loss:		
Current tax:		
- Current year	**(1,387)**	(1,525)
- Prior years	**1,756**	(221)
Deferred tax	**(914)**	(521)
	(545)	(2,267)

	2014 RO'000	2013 RO'000
Current tax liability:		
Current year	**1,387**	1,525
Prior years	**981**	2,630
	2,368	4,155

	2014 RO'000	2013 RO'000
Deferred tax asset:		
1 January	**3,959**	4,515
Movement during the year	**(933)**	(556)
31 December	**3,026**	3,959

	2014 RO'000	2013 RO'000
Deferred tax liability:		
1 January	**1,237**	721
Currency translation effect	**(10)**	4
Movement during the year	**(99)**	512
31 December	**1,128**	1,237

The tax assessments of the HSBC Bank Middle East limited, Oman Branches have been completed up to and including the tax year 2011. There is no objection or appeal pending in respect of the Oman Branches.

The tax assessments of OIB have been completed up to 2009. There are two appeals pending with the Primary Court for the years 2004 and 2005/2006 respectively. The Court has not yet issued its decisions on the pending appeals.

All subsequent years are subject to agreement with the Tax Authorities.

Tax assessment for the India operations has been agreed for all the years up to 2010. All subsequent years are yet to be agreed with the Tax Authorities. Tax return for the Pakistan operations has been assessed up to the year 2002. Pakistan operations have lodged an appeal against the assessments for the years 1996 to 2002.

The tax rate applicable to the Bank in Oman is 12% (2013: 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments, the average effective tax rate is estimated to be 4.3% (2013: 17.3%).

The difference between the applicable tax rate and the effective tax rate arises mainly due to reversal

6 Taxation *(continued)*

of tax provision in respect of certain expenses which have been allowed on completion of tax assessments, the tax effect of income not considered to be taxable and expenses that are not considered to be tax deductible. The adjustments are based on the current understanding of the existing income tax law, regulations and practices.

Deferred tax asset has been computed at the tax rate of 12% (2013: 12%).

7 Amortisation and impairment of intangible assets

	2014	2013
	RO'000	RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposits	**(1,758)**	(1,758)
Customer relationships	**(527)**	(527)
	(2,285)	(2,285)

8 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:

	2014	2013
Weighted average number of shares in issue ('000)	**2,000,312**	2,000,312
Profit for the year (RO'000)	**12,249**	10,863
Earnings per share (RO)	**0.006**	0.005

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.

	2014	2013
Number of shares in issue ('000)	**2,000,312**	2,000,312
Net assets (RO'000)	**309,877**	305,847
Net asset per share (RO)	**0.155**	0.153

9 Due from banks

	2014	2013
	RO'000	RO'000
Placements	**149,097**	134,218
Others	**6,805**	60,093
	155,902	194,311

Notes to the Financial Statements (continued)
As of 31 December 2014

10 Loans and advances to customers

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

	2014	2013
	RO'000	RO'000
Overdrafts	**79,453**	87,992
Loans	**1,138,184**	969,181
Bills discounted/purchased	**43,522**	24,302
Gross loans and advances	**1,261,159**	1,081,475
Provision for loan impairment – specific	**(36,192)**	(37,049)
Provision for loan impairment – general	**(15,880)**	(14,237)
Reserved interest	**(47,774)**	(49,717)
Loans and advances (net)	**1,161,313**	980,472

Provision for loan impairment and reserved interest:

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

	Specific Provision	**General Provision**	**Total Provision**
	RO'000	**RO'000**	**RO'000**
Balance at 1 January 2014	**37,049**	**14,237**	**51,286**
Currency translation effect on opening balance	**33**	**(1)**	**32**
Provided during the year (note 4)	**6,203**	**1,644**	**7,847**
Provision released during the year (note 4)	**(1,622)**	**-**	**(1,622)**
Written off during the year	**(5,471)**	**-**	**(5,471)**
Balance at 31 December 2014	**36,192**	**15,880**	**52,072**

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

	Specific Provision	General Provision	Total Provision
	RO'000	RO'000	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 4)	6,874	-	6,874
Provision released during the year (note 4)	(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

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

	2014	2013
	RO'000	RO'000
Balance at the beginning of the year	**49,717**	45,085
Currency translation effect in opening balance	**5**	(6)
Reserved during the year	**10,698**	11,184
Released to the statement of profit or loss	**(1,027)**	(1,132)
Written-off during the year	**(11,619)**	(5,414)
Balance at end of the year	**47,774**	49,717

Notes to the Financial Statements (continued)
As of 31 December 2014

11 Financial investments

	2014 RO'000	2013 RO'000
Available-for-sale	**666,151**	823,311
	666,151	823,311

Financial investments details are provided as follows

	Fair value 31 December 2014 RO'000	Fair value 31 December 2013 RO'000	Carrying value 31 December 2014 RO'000	Carrying value 31 December 2013 RO'000	Cost 31 December 2014 RO'000	Cost 31 December 2013 RO'000
Marketable securities – MSM						
Finance	**2,370**	2,245	**2,370**	2,245	**1,911**	1,911
Insurance	**398**	355	**398**	355	**340**	340
Services	**-**	415	**-**	415	**-**	361
Industrial	**43**	42	**43**	42	**54**	54
Government bonds	**44,531**	68,086	**44,531**	68,086	**43,736**	67,449
	47,342	71,143	**47,342**	71,143	**46,041**	70,115
Marketable securities – Foreign by Sector						
Government securities	**9,759**	2,271	**9,759**	2,271	**9,759**	2,276
Quoted foreign shares	**5,341**	4,631	**5,341**	4,631	**2,407**	2,407
	15,100	6,902	**15,100**	6,902	**12,166**	4,683
Unquoted and other investments						
Certificates of deposits			**590,022**	730,039	**590,022**	730,039
Unquoted Omani shares			**1,010**	1,010	**1,010**	1,010
Investment fund units			**12,677**	14,217	**11,717**	11,717
			603,709	745,266	**602,749**	742,766
Total			**666,151**	823,311	**660,956**	817,564

Details of classification of investments are given below:

Details of AFS investments are as follows

	2014 RO'000	2013 RO'000
Cost of:		
Quoted - Foreign Government securities	**9,759**	2,276
Quoted - Equity and other securities	**48,448**	72,522
Unquoted investments	**602,749**	742,766
	660,956	817,564
Revaluation gain of:		
Quoted - Equity and other securities	**5,195**	5,747
	666,151	823,311

At 31 December 2014, available-for-sale investments in the amount of RO8.1m (2013: RO 9.9m) are measured using Level I, RO657m (2013: RO 812.4m) are measured using Level II and RO1m (2013: RO1m) are stated at cost.

Notes to the Financial Statements (continued)

As of 31 December 2014

12 Other assets

	2014 RO'000	2013 RO'000
Derivatives - positive mark-to-market (note 20(d))	**2,489**	1,224
Prepayments and accrued income	**1,649**	1,507
Deferred tax asset (note 6)	**3,026**	3,959
Acceptances	**30,550**	51,986
Others	**1,719**	3,042
	39,433	61,718

13 Intangible assets

	2014 RO'000	2013 RO'000
Core deposits	**12,306**	12,306
Customer relationships	**3,691**	3,691
	15,997	15,997
Less: amortised	**(5,903)**	(3,618)
	10,094	12,379

14 Property and equipment

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

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

Notes to the Financial Statements (continued)
As of 31 December 2014

14 Property and equipment *(continued)*

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

	Freehold land and buildings	Leasehold property and impro-vements	Equipment, furniture and fixtures	Motor vehicles	Computer equipment	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost / 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/written off	-	(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 Due to banks

	2014	2013
	RO'000	RO'000
Bank borrowings	**4,258**	3,296
Others	**25,708**	38,534
	29,966	41,830

16 Deposits from customers

	2014	2013
	RO'000	RO'000
Current and call	**969,732**	1,123,324
Savings	**457,911**	430,565
Time deposits	**419,780**	232,754
Others	**4,916**	6,060
	1,852,339	1,792,703

17 Other liabilities

	2014 RO'000	2013 RO'000
Derivatives - negative mark-to-market (note 20(d))	**1,009**	1,563
Deferred tax liability (note 6)	**1,128**	1,237
Retirement benefit liability	**446**	603
Acceptances	**30,550**	51,986
Tax liability (note 6)	**2,368**	4,155
Accruals and deferred income	**2,288**	1,422
Obligations under finance leases (note 20(e))	**1,153**	1,031
Others	**11,788**	18,511
	50,730	80,508

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 RO7,080 (2013: RO15,310) outstanding for more than six months has been transferred to the Investors' Trust Fund during October 2014.

18 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 2013: 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.

	Number of shares		Share capital	
	2014	2013	**2014 RO'000**	2013 RO'000
Share in issue as on 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:

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

19 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.

19 Reserves ***(continued)***

(c) Foreign exchange reserve

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

(d) Available-for-sale fair value reserve

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

20 Contingent liabilities, commitments and derivatives

(a) Contingent liabilities and other commitments

	2014 **RO'000**	2013 RO'000
Letters of credit	**112,283**	93,046
Guarantees and performance bonds	**325,329**	273,706
Forward forex contracts – sales	**154,021**	117,599
Forward forex contracts – purchases	**155,670**	119,423
Currency swaps	**-**	39,377
Interest rate swaps	**91,836**	18,557
Undrawn unconditionally cancellable commitments	**566,465**	747,239
Undrawn unconditionally non-cancellable commitments	**179,469**	38,544
	1,585,073	1,447,491

(b) Legal cases

As at 31 December 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 do not consider it necessary to make any additional provisions in this regard.

(c) Capital and investment commitments

At 31 December 2014, there were capital and investment commitments amounting to RO1.2m (2013: RO1.3m).

(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.

Notes to the Financial Statements (continued)

As of 31 December 2014

20 Contingent liabilities, commitments and derivatives

(d) Derivatives *(continued)*

31 December 2014:

	Positive fair value RO'000	Negative fair value RO'000	Total notional amount RO'000
Derivatives held for trading:			
Forward foreign exchange contracts	713	769	309,691
Interest rate swaps	1,776	240	91,836
	2,489	1,009	401,527

31 December 2013:

	Positive fair value RO'000	Negative fair value RO'000	Total Notional amount 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

Derivative product types

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

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

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 31 December 2014, annual commitments under non-cancellable operating leases were RO1.7m (2013: RO1.8m).

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 2014			At 31 December 2013		
	Total future minimum payments RO'000	Future interest charges RO'000	Present value of finance lease commitments RO'000	Total future minimum payments RO'000	Future interest charges RO'000	Present value of finance lease commitments RO'000
– No later than one year	592	(110)	482	317	(130)	187
– Later than one year and up to five years	848	(177)	671	1,131	(287)	844
	1,440	(287)	1,153	1,448	(417)	1,031

Notes to the Financial Statements (continued)
As of 31 December 2014

21 Analysis of significant assets and liabilities

Nature of customer advances

	2014 RO'000	2013 RO'000
Gross		
Overdrafts	**79,453**	87,992
Credit card	**11,440**	11,727
Loans	**992,824**	868,680
Clean import loans	**133,920**	88,774
Other bills	**43,522**	24,302
	1,261,159	1,081,475

22 Maturities of assets and liabilities

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

At 31 December 2014	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	**108,035**	**20,266**	**51,706**	**180,007**
Due from banks	**155,902**	**-**	**-**	**155,902**
Loans and advances to customers - net	**293,603**	**106,632**	**761,078**	**1,161,313**
Financial investments	**599,593**	**324**	**66,234**	**666,151**
Other assets	**33,922**	**5,421**	**90**	**39,433**
Intangible assets	**571**	**1,714**	**7,809**	**10,094**
Property and equipment	**-**	**-**	**30,012**	**30,012**
Total assets	**1,191,626**	**134,357**	**916,929**	**2,242,912**
Liabilities and equity				
Due to banks	**29,966**	**-**	**-**	**29,966**
Deposits from customers	**496,089**	**490,761**	**865,489**	**1,852,339**
Other liabilities	**45,201**	**5,508**	**21**	**50,730**
Equity	**-**	**12,249**	**297,628**	**309,877**
Total liabilities and equity	**571,256**	**508,518**	**1,163,138**	**2,242,912**

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	-	10,863	294,984	305,847
Liabilities and equity	667,660	536,368	1,016,860	2,220,888

23 Interest rate sensitivity gap

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

At 31 December 2014	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		-	-	-	180,007	180,007
Due from banks	0.24%	149,207	-	-	6,695	155,902
Loans and advances to customers – net	4.48%	315,333	110,949	735,031	-	1,161,313
Financial investments	0.41%	599,401	324	44,588	21,838	666,151
Other assets		-	-	-	39,433	39,433
Intangible assets		-	-	-	10,094	10,094
Property and equipment		-	-	-	30,012	30,012
Total assets		1,063,941	111,273	779,619	288,079	2,242,912
Liabilities and equity						
Due to banks		-	-	-	29,966	29,966
Deposits from customers	0.63%	257,292	93,140	190,939	1,310,968	1,852,339
Other liabilities		-	-	-	50,730	50,730
Equity		-	-	-	309,877	309,877
Total liabilities and equity		257,292	93,140	190,939	1,701,541	2,242,912
Interest sensitivity gap:						
- net		806,649	18,133	588,680	-	-
- cumulative		806,649	824,782	1,413,462	-	-

23 Interest rate sensitivity gap *(continued)*

At 31 December 2013	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	-	-	-	-	117,629	117,629
Due from banks	0.33%	134,825	-	-	59,486	194,311
Loans and advances to customers – net	4.75%	257,305	84,167	639,000	-	980,472
Financial investments	0.28%	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	305,195	2,220,888
Liabilities and equity						
Due to banks	-	-	-	-	41,830	41,830
Deposits from customers	0.67%	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		295,031	61,354	4,323	1,860,180	2,220,888
Interest sensitivity gap:						
- net		828,967	46,913	679,105	-	-
- cumulative		828,967	875,880	1,554,985	-	

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 RO140,565 (2013:RO152,816); an equal change in the opposite direction would have decreased other comprehensive income by RO140,565 (2013: RO152,816).

24 Financial assets and liabilities

24.1 Fair value information

Based on the valuation methodology outlined in note 2.3.4, the fair values of all financial instruments at 31 December 2014 were not significantly different to their net book values at 31 December 2014.

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 Level 1	Using observable inputs Level 2	Financial instruments carried at cost	Total
Recurring fair value measurements	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 31 December 2014				
Assets				
Derivatives	**-**	**2,489**	**-**	**2,489**
Financial investments: available-for-sale	**8,086**	**657,055**	**1,010**	**666,151**
Liabilities				
Derivatives	**-**	**1,009**	**-**	**1,009**
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

Fair values of financial instruments not carried at fair value

	Valuation techniques				
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total fair value	Carrying amount
Assets and liabilities not held for sale	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 31 December 2014					
Assets					
Cash and balances with central bank	**-**	**180,007**	**-**	**180,007**	**180,007**
Due from banks	**-**	**155,902**	**-**	**155,902**	**155,902**
Loans and advances to customers - net	**-**	**1,137,828**	**-**	**1,137,828**	**1,161,313**
Liabilities					
Due to banks	**-**	**25,731**	**-**	**25,731**	**29,966**
Deposit from customers	**-**	**1,853,494**	**-**	**1,853,494**	**1,852,339**

24 Financial assets and liabilities *(continued)*

24.1 Fair value information *(continued)*

	Valuation techniques				
Assets and liabilities not held for sale	Quoted market price Level 1 RO'000	Using observable inputs Level 2 RO'000	With significant unobservable inputs Level 3 RO'000	Total fair value RO'000	Carrying amount 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

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.

25 Cash and cash equivalents

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

	2014 RO'000	2013 RO'000
Statement of financial position items comprise:		
Cash and balances with central banks	**180,007**	117,629
Due from other banks	**155,902**	194,311
Due to banks	**(29,966)**	(41,830)
	305,943	270,110
Adjustment for items maturing after three months from date of acquisition and restricted balances	**(15,886)**	(15,886)
	290,057	254,224
Cash and cash equivalents comprise:		
Cash and balances with central banks	**164,121**	101,743
Due from other banks	**155,902**	194,311
Due to banks	**(29,966)**	(41,830)
	290,057	254,224

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

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

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

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

	Significant shareholder - HSBC and related group entities RO'000	Directors RO'000	Key management personnel RO'000	Others RO'000	Total RO'000
As at 31 December 2014					
Loans and advances	**-**	**-**	**-**	**18,890**	**18,890**
Current, deposit and other accounts	**-**	**19**	**-**	**13,347**	**13,366**
Letters of credit and guarantees	**-**	**-**	**-**	**10,625**	**10,625**
Due from banks	**27,810**	**-**	**-**	**-**	**27,810**
Due to banks	**9,321**	**-**	**-**	**-**	**9,321**
For the year ended 31 December 2014					
Net Interest Income	**88**	**-**	**-**	**247**	**335**
Net fee income	**111**	**1**	**-**	**244**	**356**
Other operating expenses	**(10,972)**	**(23)**	**(2,428)**	**(279)**	**(13,702)**

Notes to the Financial Statements (continued)
As of 31 December 2014

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

	Significant shareholder - HSBC and related group entities RO'000	Directors RO'000	Key management personnel RO'000	Others RO'000	Total RO'000
As at 31 December 2013					
Loans and advances	-	18	-	10,421	10,829
Current, deposit and other accounts	-	59	-	23,093	23,152
Letters of credit and guarantees	-	-	-	9,612	9,612
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 Distribution by economic sector

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

	2014 RO'000	2013 RO'000
Personal and consumer loans	**456,808**	437,010
Corporate and commercial		
Import trade	**162,422**	100,554
Construction	**82,496**	45,690
Manufacturing	**170,345**	189,221
Wholesale and retail trade	**39,678**	33,847
Export trade	**7,494**	11,622
Electricity, gas, water, transportation and communication	**87,472**	58,683
Services	**203,606**	143,502
Mining and quarrying	**19,304**	29,306
Others	**31,518**	32,040
	804,335	644,465
Financial institutions	**16**	-
Total gross loans and advances	**1,261,159**	1,081,475
Provision for loan impairment - specific	**(36,192)**	(37,049)
Provision for loan impairment - general	**(15,880)**	(14,237)
Reserved interest	**(47,774)**	(49,717)
Net loans and advances	**1,161,313**	980,472
Non-performing loans	**92,573**	94,668

Specific provision for loan impairment and reserved interest represent 90.7% (2013: 91.7%) of gross non-performing loans and advances.

Notes to the Financial Statements (continued)
As of 31 December 2014

27 Distribution by economic sector *(continued)*

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

	2014 RO'000	2013 RO'000
Personal and consumer	**681**	87
Import trade	**66,458**	63,408
Construction	**59,099**	59,749
Manufacturing	**16,505**	12,302
Wholesale and retail trade	**18,207**	19,097
Electricity, gas, water, transportation and communication	**11,962**	2,468
Services	**207,398**	108,962
Mining and quarrying	**1,390**	403
Others	**55,912**	100,276
	437,612	366,752

28 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.

Information about operating segments:

	31 December 2014			
	CMB RO' 000	**RBWM RO' 000**	**GB&M RO' 000**	**Total RO' 000**
Net interest income	16,265	29,988	2,610	48,863
Net fees and commission	6,371	4,525	1,666	12,562
Net trading income	2,228	1,230	3,768	7,226
Other operating income	1,186	1,058	99	2,343
Total	26,050	36,801	8,143	70,994
Profit / (loss) for the year before income tax	7,512	(999)	6,282	12,794
Reportable segment assets	748,254	457,655	927,959	2,133,868
Reportable segment liabilities	1,153,364	725,149	29,168	1,907,681

28 Operating Segment *(continued)*

	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 / (loss) 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

Reconciliation of reportable segment assets and liabilities

	2014 RO' 000	2013 RO' 000
Assets		
Total assets for reportable segments	**2,133,868**	2,070,768
Other unallocated amounts	**109,044**	150,120
Total assets	**2,242,912**	2,220,888
Liabilities		
Total liabilities for reportable segments	**1,907,681**	1,896,424
Other unallocated amounts	**25,354**	18,617
Total liabilities	**1,933,035**	1,915,041

Operating segments geographical areas

	Oman RO'000	**Others RO'000**	**Adjustments RO'000**	**Total RO'000**
As at 31 December 2014				
Income from customers	**77,289**	**948**	**-**	**78,237**
Net segment result	**13,262**	**(1,013)**	**-**	**12,249**
Assets	**2,237,742**	**29,779**	**(24,609)**	**2,242,912**
Liabilities	**1,930,644**	**12,529**	**(10,138)**	**1,933,035**
Capital expenditure	**2,184**	**-**	**-**	**2,184**
Depreciation and impairment of property and equipment	**1,810**	**388**	**-**	**2,198**
Provision for loan impairment (net of fair value unwind)	**(6,867)**	**(1)**	**-**	**(6,868)**

	Oman RO'000	Others RO'000	Adjustments RO'000	Total 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	(6,629)	(14)	-	(6,643)

Notes to the Financial Statements (continued)

As of 31 December 2014

29 Dividend per share

The Board of Directors at the forthcoming Ordinary Annual General meeting will propose a cash dividend of RO 0.0055 per share of nominal value of RO 0.100 each amounting to RO11.0m for the year 2014. (2013: cash dividend of RO 0.0038 per share of nominal value of RO 0.100 each amounting to RO7.6m). 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 2015.

30 Risk management

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

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

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

30.1 Risk governance and ownership

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

The Board 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.

30.2 Risk appetite

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

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

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

30 Risk management *(continued)*

30.3 Credit risk

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

Credit risk management

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

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

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

Credit quality

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

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

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

Impairment assessment

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

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

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

30 Risk management *(continued)*

30.3 Credit risk *(continued)*

Write-off of loans and advances:

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

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

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

Cross-border exposures

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

Maximum exposure to credit risk

The Bank's exposure to credit risk is spread across a broad range of asset classes, including derivatives, trading assets, loans and advances to customers, loans and advances to banks, and financial investments.

For financial assets recognised on the statement of financial position , the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk, it is generally the full amount of the committed facilities.

Collateral and other credit enhancements

Although collateral can be an important mitigate of credit risk, it is the Bank's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. However, for other lending decisions a charge over collateral is obtained and is considered in determining the credit decision and pricing. In the event of default the Bank may utilise the collateral as a source of repayment. The fair value of cash collateral and mortgages on unclassified loans and advances at 31 December 2014 is RO78.3m (2013: 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**	
	2014	2013	**2014**	2013	**2014**	2013
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Concentration by sector:						
Sovereign	**18,086**	18,059	-	-	**644,312**	800,396
Corporate	**699,543**	538,993	-	-	-	-
Banks	-	-	**155,902**	194,311	-	-
Retail	**443,684**	423,420	-	-	-	-
Equity	-	-	-	-	**21,839**	22,915
Carrying amount	**1,161,313**	980,472	**155,902**	194,311	**666,151**	823,311

Notes to the Financial Statements (continued)
As of 31 December 2014

30 Risk management *(continued)*
30.3 Credit risk *(continued)*

Exposure to credit risk

	Loans and advances		Due from other banks		Investments	
	2014	2013	**2014**	2013	**2014**	2013
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Individually impaired	**92,573**	94,668	-	-	-	-
Allowance for impairment	**(83,966)**	(86,766)	-	-	-	-
Carrying amount	**8,607**	7,902	-	-	-	-
Past due and not impaired	**11,105**	25,751	-	-	-	-
Neither past due nor impaired	**1,157,481**	961,056	**155,902**	194,311	**666,151**	823,311
Provision for loan impairment – general	**(15,880)**	(14,237)	-	-	-	-
Total carrying amount	**1,161,313**	980,472	**155,902**	194,311	**666,151**	823,311

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).

30.4 Liquidity and funding management

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

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

Policies and procedures

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

The Bank's liquidity and management process includes:

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

30 Risk management *(continued)*

30.4 Liquidity and funding management *(continued)*

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 RO1,933.0m at 31 December 2014, funding from customers amounted to RO1,852.3m, of which RO986.9m 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 RO2,163.3m included cash and central bank balances (RO180.0m), due from banks (RO155.9m, all repayable within one year), loans to customers (RO 1,161.3m, including RO400.2m repayable within one year) and financial investment including certificate of deposit (RO 666.2m including RO599.9m 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:

	2014	2013
	RO	RO
Operational Cash Flow Projection (OCP)	**61m**	498m
Advances to Core Deposit Ratio (ACF Ratio)	**113.40%**	85.97%

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

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.

30 Risk management *(continued)*

30.4 Liquidity and funding management *(continued)*

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.

30.5 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.

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

30 Risk management *(continued)*

30.5 Market risk management *(continued)*

- 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:

	2014 RO'000	**Average RO'000**	**Maximum RO'000**	**Minimum RO'000**	2013 RO'000	Average RO'000	Maximum RO'000	Minimum RO'000
Total VAR	**614**	**458**	**666**	**203**	205	233	368	101
Trading VAR	**-**	**2**	**6**	**-**	3	4	23	-

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:

	Overall exposure in RO' 000	
Currency	**2014**	2013
US Dollars	**2,171**	51,252
Pound Sterling	**9**	30
Euro	**6**	56
Japanese Yen	**-**	5
UAE Dirhams	**50**	44
Indian Rupee	**1**	4
Other currencies	**320**	387
Total exposure	**2,557**	51,778

30 Risk management *(continued)*

30.6 Legal risk

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

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

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

The Bank has a legal function to assist management in controlling legal risk. The function provides legal advice and support in managing claims against the Bank 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.

30.7 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.

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.

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

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

30.8 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 of 12.625% including capital conservation buffer for 2014 (2013: 12%) in accordance with CBO stipulated guidelines. The Bank's regulatory capital position at 31 December was as follows:

Notes to the Financial Statements (continued)
As of 31 December 2014

30 Risk management *(continued)*
30.8 Capital management *(continued)*

	2014 RO'000	2013 RO'000
Common Equity Tier 1 capital ('CET 1') / Tier 1 capital		
Ordinary share capital	**200,031**	200,031
Legal, statutory and foreign exchange reserves	**35,933**	35,245
Retained earnings	**58,292**	57,901
Regulatory adjustments to CET1	**(13,132)**	(16,461)
CET 1/Tier 1 capital	**281,124**	276,716
Additional Tier 1 capital (AT1)	**-**	-
Total Tier 1 capital (T1 = CET1+AT1)	**281,124**	276,716
Tier 2 capital (T2)		
Fair value reserve for available-for-sale equity securities	**1,985**	2,335
Provision for loan impairment – general	**15,880**	14,237
Total	**17,865**	16,572
Total regulatory capital	**298,989**	293,288
Risk-weighted assets		
Banking book	**1,506,007**	1,260,650
Operational risk	**126,319**	130,894
Market risk	**6,702**	61,302
Total risk-weighted assets	**1,639,028**	1,452,846
Capital ratios		
CET 1 / Tier 1 capital ratio	**17.15%**	19.05%
Total capital ratio	**18.24%**	20.19%

31 Comparative balances

Certain corresponding figures for 2013 have been reclassified in order to conform to the presentation for the current year except for note 30.8.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