HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Report

31 March 2014

HSBC

Interim Condensed Financial Report - 31 March 2014

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Presentation of Information

This document comprises the Interim Condensed Financial Report – 31 March 2014 for HSBC Bank Oman S.A.O.G. (formerly Oman International Bank S.A.O.G.) ('the Bank'). It contains Unaudited Interim Condensed Financial Statements, together with the Board of Directors Report, the Auditor's review report and the Summary of Unaudited Results.

Board of Directors' Report for the three months ended 31 March 2014

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present your bank's first quarter financial results for 2014.

At our Annual General Meeting, we talked about how we had been spending a lot of time and effort putting in place stronger foundations for the future and that we remain focused on building the leading bank in Oman, by delivering the best customer experience. We will achieve this through a clear strategy of growing revenues, streamlining processes and procedures and implementing the highest global standards. Clearly the period between the AGM and the announcement of our first quarter results does not give time to evidence an improvement in performance but we remain encouraged by early signs of improved activity.

On 1st April, we were pleased to announce the appointment of a new Chief Executive Officer. Andrew Long joined from HSBC in Egypt and brings a wealth of experience to the role as the bank builds for the future.

Performance Summary

Our first quarter performance shows a 45.6% decrease in net profit of RO3.1m compared to RO5.7m for the same period in 2013, which had benefitted from large recoveries, release of a portion of the general provision and earnings from one-off fees. Net interest income ('NII') was flat for the period ended 31 March 2014 at RO11.5m, compared to RO11.6m for the same period last year.

Net fee and other income decreased by 3.2% to RO3.0m compared to RO3.1m for the same period last year, which reflected a significant one-off fee received in Q1 2013. Net exchange income stood at RO1.6m, representing an 11.1% decrease in comparison to RO1.8m for the same period last year.

A net charge of RO0.2m has been reported within Loan Impairment Charges for the period against a net recovery of RO2.5m in the same period last year, which reflected recoveries released last year from corporate clients of RO1.6m and as a result of a general provision release of RO1.3m following a reduction in corporate loans and advances in 2013.

Operating expenses remained flat at RO12.3m, in line with Q1 2013.

Loans and advances net of provisions and reserved interest as at 31 March 2014 decreased by 4.5% to RO1,017.1m, due to the sale of the syndicated loan book and repayment of loans. Customer deposits decreased by 7.9% to RO1,948.1m, due to a reduction in corporate deposits.

HBON's Capital Adequacy ratio stood at 19.8% as at Q1 2014 compared to 17.6% in Q1 2013, representing a strong capital base for future growth.

Delivering the best customer experience

In January, we introduced a new, more customer-centric way of serving retail banking customers. This reflects our strategy to 'treat customers openly and fairly'. Staff are no longer rewarded based on product sales, but on how they deliver customer service. They are encouraged to better understand customers' financial needs and to tailor the Bank's services to meet these needs.

We have seen noticeable improvements in sales activity compared to 2013, particularly in our Premier and Advance segments with new customer acquisition on an upward trajectory and customer service levels vastly improved. We firmly believe that a service and relationship-led model is the right way forward.

We continued to invest in our branch network, with more branches refurbished in Al Athaibah, Seeb, Mabellah and Ruwi. This refurbishment programme will continue throughout the year.

In Commercial Banking, we continued to strengthen our management team, recruiting a new Head of Business Banking (SME), who brings experience from the UK, Europe and Asia Pacific, to drive our support for this important segment.

Streamlining our processes and procedures

Work continued to ensure systems are robust and able to support the Bank's growth ambitions. In particular, our payments infrastructure has been significantly enhanced such that salary payments, for example, are now being processed at an accuracy rate of over 99%. Given that the Bank processes over 100,000 salary payments each month, this is exemplary.

We continued to drive adoption of digital channels. Year-on-year, we have seen corporate users on our Internet Banking platform HSBCnet increase their use of automated transfers, up from 22% of our portfolio to 42%. We also initiated a project to reduce the amount of paper we use, to help enhance productivity and to support the Bank's Corporate Sustainability goals.

Investing in our people and the community

We continued to invest in identifying and developing Omani talent. Following the launch of the Bank's Graduate Trainee Programme for Omani nationals in 2013, the first 3 graduates joined, and supported our participation at the annual SQU Careers Fair. Some of the Bank's most promising Omani staff attended a 2-day Career Development Programme to learn about leadership and networking, how to identify challenges as well as problem solving techniques.

We renewed, for a 4th year, our partnership with Kids Read and supported events at schools in Shifaa, Dhabab and Um Al Hakeem. We signed an agreement with Outward Bound Oman to run a "Journey to Discovery" course to help enhance the employability of Omani students. Five bank volunteers also took part in Outward Bound's 43rd National Day expedition in Rub Al Khali during January.

Conclusion

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

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

David Eldon
Chairman

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

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

Introduction
We have reviewed the unaudited condensed statement of financial position of HSBC Bank Oman SAOG ("the Bank") as at 31 March 2014, and the related unaudited condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months period then ended, and other explanatory notes ("the interim financial information") set out on pages 6 to 28.

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

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

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

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

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

27 April 2014

KPMG

C.R. No. 1/30936/6

Summary of unaudited results for the three months period ended 31 March 2014

		31 March 2014 RO’000	31 March 2013 RO’000	Change (%)
	Loans and advances net of provisions and reserved interest	**1,017,146**	1,064,840	(4%)
	Customer deposits	**1,948,142**	2,115,571	(8%)
	Net assets	**301,634**	299,230	1%
*	**Net assets per share**	**0.151**	0.150	1%

		Three months period ended 31 March 2014 RO’000	Three months period ended 31 March 2013 RO’000	Change (%)
	Net interest income	**11,500**	11,609	(1%)
	Net profit for the period	**3,087**	5,742	(46%)
**	**Earnings per share (annualised)**	**0.006**	0.011	(45%)
***	**Capital adequacy ratio (CAR)**	**19.82%**	17.65%	12%

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

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

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

Unaudited interim condensed statement of profit or loss and other comprehensive income for the three months period ended 31 March 2014

	Notes	Three months ended 31 March 2014 RO' 000	Three months ended 31 March 2013 RO' 000
Interest income	*6*	**13,109**	14,799
Interest expense	*7*	**(1,609)**	(3,190)
Net interest income		**11,500**	11,609
Net fee income		**2,426**	3,000
Net trading income		**1,642**	1,816
Dividend income		**537**	77
Other operating income		**15**	24
Net operating income before loan impairment charges and other credit risk provisions		**16,120**	16,526
Loan impairment (charge) and other credit risk provisions - net of recoveries	*8*	**(231)**	2,520
Net operating income		**15,889**	19,046
Operating expenses	*9*	**(11,691)**	(11,705)
Amortisation and impairment of intangible assets	*10*	**(571)**	(571)
Total operating expenses		**(12,262)**	(12,276)
Profit before tax		**3,627**	6,770
Tax expense		**(540)**	(1,028)
Profit for the period		**3,087**	5,742
Other comprehensive income / (expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
– Fair value gains on available-for-sale investments		**276**	1,283
– Income tax on fair value gain on available-for-sale investments		**(4)**	(99)
– Effect of currency translation		**32**	167
		304	1,351
Total comprehensive income for the period		**3,391**	7,093
Earnings per share - basic (RO)	*11*	**0.006**	0.011

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

Unaudited interim condensed statement of financial position as at 31 March 2014

	Notes	At 31 March 2014 RO'000	At 31 March 2013 RO'000	Audited At 31 December 2013 RO'000
Assets				
Cash and balances with central banks		**212,998**	248,230	117,629
Due from banks		**246,643**	194,563	194,311
Loans and advances to customers - net	*12*	**1,017,146**	1,064,840	980,472
Financial investments	*13*	**774,429**	896,324	823,311
Other assets	*14*	**73,578**	112,584	61,718
Intangible assets	*15*	**11,808**	14,093	12,379
Property and equipment	*16*	**30,602**	30,550	31,068
Total assets		**2,367,204**	2,561,184	2,220,888
Liabilities and equity				
Liabilities				
Due to banks		**27,185**	34,151	41,830
Deposits from customers	*17*	**1,948,142**	2,115,571	1,792,703
Other liabilities	*18*	**90,243**	112,232	80,508
Total liabilities		**2,065,570**	2,261,954	1,915,041
Equity				
Share capital	*23*	**200,031**	200,031	200,031
Legal reserve	*24(a)*	**33,759**	32,673	33,759
Statutory reserve	*24(b)*	**1,534**	1,252	1,486
Available-for-sale fair value reserve	*24(c)*	**5,338**	2,819	5,066
Retained profits		**60,972**	62,455	65,505
Total equity		**301,634**	299,230	305,847
Total equity and liabilities		**2,367,204**	2,561,184	2,220,888
Net assets per share - RO		**0.151**	0.150	0.153
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		**94,608**	177,355	93,046
- Guarantees		**274,818**	257,208	273,706
- Others	*19*	**1,419,981**	957,640	1,080,739
		1,789,407	1,392,203	1,447,491

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

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

David Eldon
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the three months period ended 31 March 2014

	Share capital	Legal reserve	Statutory reserve	Available-for-sale fair value reserve	Retained profits	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 1 January 2013	200,031	32,673	1,236	1,635	58,562	294,137
Total comprehensive income for the period						
Profit for the period	-	-	-	-	5,742	5,742
Other comprehensive income / (expense) for the period						
Effect of currency translation	-	-	16	-	151	167
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	1,184	-	1,184
Total other comprehensive income for the period			16	1,184	151	1,351
Total comprehensive income for the period			16	1,184	5,893	7,093
Transaction with shareholders, recorded directly in equity						
Dividend paid for 2012	-	-	-	-	(2,000)	(2,000)
At 31 March 2013	200,031	32,673	1,252	2,819	62,455	299,230
At 1 January 2014	**200,031**	**33,759**	**1,486**	**5,066**	**65,505**	**305,847**
Total comprehensive income for the period						
Profit for the period	**-**	**-**	**-**	**-**	**3,087**	**3,087**
Other comprehensive income / (expenses) for the period						
Effect of currency translation	-	-	**48**	-	**(16)**	**32**
Net movement in fair value of available-for-sale investments (net of tax)	-	-	-	**272**	-	**272**
Total other comprehensive income for the period	**-**	**-**	**48**	**272**	**(16)**	**304**
Total comprehensive income for the period	-	-	**48**	**272**	**3,071**	**3,391**
Transaction with shareholders, recorded directly in equity						
Dividend paid for 2013	**-**	**-**	**-**	**-**	**(7,604)**	**(7,604)**
At 31 March 2014	**200,031**	**33,759**	**1,534**	**5,338**	**60,972**	**301,634**

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

Unaudited interim condensed statement of cash flows for the three months period ended 31 March 2014

	Note	**Three months ended 31 March 2014 RO' 000**	Three months ended 31 March 2013 RO' 000
Cash flows from operating activities			
Profit before tax		**3,627**	6,770
Adjustments for:			
– non-cash items included in profit before tax		**1,305**	(1,333)
– change in operating assets		**(48,766)**	208,116
– change in operating liabilities		**165,116**	154,266
– tax paid		**(218)**	-
Net cash generated from operating activities		**121,064**	367,819
Cash flows from investing activities			
Purchase of financial investments		**(1,931,881)**	(1,423,022)
Proceeds from maturity of financial investments		**1,981,036**	1,208,554
Purchase of property and equipment	*16*	**(211)**	(1,060)
Effect of currency translation		**(59)**	123
Net cash generated from / (used in) investing activities		**48,885**	(215,405)
Cash flows from financing activities			
Dividends paid		**(7,604)**	(2,000)
Net cash used in financing activities		**(7,604)**	(2,000)
Net change in cash and cash equivalents		**162,345**	150,414
Cash and cash equivalents at the beginning of the period		**254,224**	242,343
Cash and cash equivalents at the end of the period	*28*	**416,569**	392,757

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

1 Legal status and activities

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

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

2 Basis of preparation:

(a) Compliance with International Financial Reporting Standards

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

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

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

Standards adopted during the period ended 31 March 2014:

On 1 January 2014, the Bank adopted the following significant new standards and revisions to standards for which the financial effect is insignificant to these interim condensed financial statements:

- In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are required to be applied retrospectively.
- In October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities', which introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating all subsidiaries in its consolidated and separate financial statements.

During the period ended 31 March 2014, the Bank also adopted amendments to standards which had an insignificant effect on these interim condensed financial statements.

(b) Presentation of information

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

(c) Comparative information

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

2 Basis of preparation (continued)

(d) Use of estimates and assumptions

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

(e) Future accounting developments

At 31 March 2014, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these interim condensed financial statements. In addition to the projects to complete financial instrument accounting, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting, which together with the standards described below, could represent significant changes to accounting requirements in the future.

Standards applicable in 2018

In November 2009, the IASB issued IFRS 9 'Financial Instruments' which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement.' IFRS 9 classification and measurement requirements are to be applied retrospectively but prior periods need not be restated.

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

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be considered separately. In November 2013, the IASB issued amendments to IFRS 9 in respect of the general hedge accounting requirements, transition and effective date. As a result of these amendments, it is confirmed that all phases of IFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. The IASB has tentatively decided that the effective date is 1 January 2018.

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

3 Accounting policies

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

Hedge accounting

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

Fair value hedge

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

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

4 Products and services

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

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

5 Business combination

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

6 Interest income

Interest bearing assets earned interest at an overall annualized rate of 2.60% for the three months period ended 31 March 2014 (31 March 2013 – 2.81 %).

7 Interest expense

For the three months period ended 31 March 2014, the average overall annualised cost of funds was 0.34% (31 March 2013 – 0.63%).

8 Loan impairment (charge) and other credit risk provisions - net of recoveries

	Three months period ended 31 March 2014 RO'000	Three months period ended 31 March 2013 RO'000
Provided during the period – general (note 12)	**(376)**	-
Provided during the period – specific (note 12)	**(1,518)**	(1,374)
Provisions released (note 12)	**947**	3,108
Adjustments as a result of fair value unwind	**58**	58
Reserved interest released (note 12)	**85**	222
Written-off loans recovered	**615**	520
Bad debts directly written off to statement of profit or loss	**(42)**	(14)
	(231)	2,520

9 Operating expenses

	Three months period ended 31 March 2014 RO'000	Three months period ended 31 March 2013 RO'000
Employee compensation and benefits	**(5,853)**	(5,203)
General and administrative expenses*	**(5,335)**	(5,886)
Depreciation of property and equipment	**(503)**	(616)
	(11,691)	(11,705)

*****General and administrative expenses for the current quarter include the RO 0.4m of "Mandoos Prize" draw expenses which was previously reported as interest expense up until March 2013.

10 Amortisation and impairment of intangible assets

	Three months period ended 31 March 2014 RO'000	Three months period ended 31 March 2013 RO'000
This represents amortisation of intangible assets as result of business combination accounted for as follows :		
Core deposits	**(440)**	(440)
Customer relationships	**(131)**	(131)
	(571)	(571)

11 Earnings per share basic

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

	Three months period ended 31 March 2014	Three months period ended 31 March 2013	For the year ended 31 December 2013
Weighted average number of shares in issue ('000)	**2,000,313**	2,000,313	2,000,313
Net profit for the period (RO'000)	**3,087**	5,742	10,863
Earnings per share basic – annualised (RO)	**0.006**	0.011	0.005

12 Loans and advances to customers - net

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

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Overdrafts	**87,387**	89,492	87,992
Loans	**925,958**	977,749	898,534
Bills discounted / purchased	**36,329**	22,041	24,302
Gross loans and advances	**1,049,674**	1,089,282	1,010,828
Provision for loan impairment - specific	**(13,680)**	(13,562)	(14,072)
Provision for loan impairment - general	**(4,621)**	(4,952)	(4,246)
Reserved interest	**(14,227)**	(5,928)	(12,038)
Net loans and advances	**1,017,146**	1,064,840	980,472

12 Loans and advances to customers (continued)

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

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Overdrafts	**87,387**	89,492	87,992
Loans	**996,605**	1,048,396	969,181
Bills discounted / purchased	**36,329**	22,041	24,302
Gross loans and advances	**1,120,321**	1,159,929	1,081,475
Provision for loan impairment - specific	**(36,657)**	(36,539)	(37,049)
Provision for loan impairment - general	**(14,612)**	(14,943)	(14,237)
Reserved interest	**(51,906)**	(43,607)	(49,717)
Net loans and advances	**1,017,146**	1,064,840	980,472

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

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
0-5%	**528,868**	546,269	480,525
5-7%	**318,033**	250,083	292,711
7-10%	**214,555**	298,941	248,282
10-13%	**45,529**	48,555	46,495
more than 13%	**13,336**	16,081	13,462
	1,120,321	1,159,929	1,081,475

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

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
0-6 months	**328,820**	250,467	268,829
6-12 months	**23,569**	49,126	45,797
1-3 years	**78,312**	95,358	51,233
3-5 years	**193,626**	226,146	190,750
More than 5 years	**392,819**	443,743	423,863
	1,017,146	1,064,840	980,472

12 Loans and advances to customers (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Personal and consumer loans	**436,236**	417,432	437,010
Corporate and commercial			
Import trade	**115,363**	135,323	100,554
Construction	**48,663**	68,750	45,690
Manufacturing	**175,793**	173,463	189,221
Wholesale and retail trade	**37,761**	20,335	33,847
Export trade	**20,942**	5,489	11,622
Electricity, gas, water, transportation and communication	**68,500**	107,844	58,683
Services	**162,302**	135,806	143,502
Mining and quarrying	**24,350**	52,654	29,306
Others	**30,411**	36,436	32,040
	684,085	736,100	644,465
Financial institutions	**-**	6,397	-
Total gross loans and advances	**1,120,321**	1,159,929	1,081,475
Provision for loan impairment - specific	**(36,657)**	(36,539)	(37,049)
Provision for loan impairment - general	**(14,612)**	(14,943)	(14,237)
Reserved interest	**(51,906)**	(43,607)	(49,717)
Net loans and advances	**1,017,146**	1,064,840	980,472
Non performing loans	**96,318**	88,867	94,668

Specific provision for loan impairment and reserved interest represents 91.9% (31 March 2013 – 90.2%) of gross non-performing loans and advances.

12 Loans and advances to customers (continued)

Provision for loan impairment and reserved interest

The movement on provision for loan impairment for the three months period ended 31 March 2014 is analysed in the table below:

	Specific provision RO'000	**General provision RO'000**	**Total provision RO'000**
Balance at 1 January 2014	**37,049**	**14,237**	**51,286**
Currency translation effect on opening balance	**52**	**(1)**	**51**
Provided during the period (note 8)	**1,518**	**376**	**1,894**
Provisions released	**(947)**	**-**	**(947)**
Written off during the period	**(1,015)**	**-**	**(1,015)**
Balance at 31 March 2014	**36,657**	**14,612**	**51,269**

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

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2013	37,602	16,280	53,882
Currency translation effect on opening balance	(11)	-	(11)
Provided during the period (note 8)	1,374	-	1,374
Provisions released	(1,771)	(1,337)	(3,108)
Written off during the period	(655)	-	(655)
Balance at 31 March 2013	36,539	14,943	51,482

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

	31 March 2014 RO'000	31 March 2013 RO'000
Balance at the beginning of the period	**49,717**	45,085
Currency translation effect on opening balance	**7**	-
Reserved during the period	**2,596**	2,738
Released to the statement of profit or loss in loan impairment - credit (note 8)	**(85)**	(222)
Written off during the period	**(329)**	(3,994)
Balance at end of the period	**51,906**	43,607

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

13 Financial investments

Financial investments details are provided as follows:

	Fair value	Fair value	Fair value	**Carrying value**	Carrying value	Carrying value	**Cost**	Cost	Cost
	31 March 2014	31 March 2013	31 December 2013	**31 March 2014**	31 March 2013	31 December 2013	**31 March 2014**	31 March 2013	31 December 2013
	RO'000	RO'000	RO'000	**RO'000**	RO'000	RO'000	**RO'000**	RO'000	RO'000
Marketable securities – MSM									
Finance	**2,466**	2,207	2,245	**2,466**	2,207	2,245	**1,911**	1,911	1,911
Insurance	**353**	370	355	**353**	370	355	**340**	340	340
Services	**439**	397	415	**439**	397	415	**361**	361	361
Industrial	**38**	41	42	**38**	41	42	**54**	54	54
Government bonds	**68,464**	48,272	68,086	**68,464**	48,272	68,086	**67,664**	47,369	67,449
Other bonds	**-**	220	-	**-**	220	-	**-**	220	-
	71,760	51,507	71,143	**71,760**	51,507	71,143	**70,330**	50,255	70,115
Marketable securities – Foreign by Sector									
Government securities	**7,892**	2,881	2,271	**7,892**	2,881	2,271	**7,893**	2,881	2,276
Foreign shares	**4,440**	3,469	4,631	**4,440**	3,469	4,631	**2,407**	2,407	2,407
	12,332	6,350	6,902	**12,332**	6,350	6,902	**10,300**	5,288	4,683
Unquoted and other investments									
Certificates of Deposits				**675,048**	825,007	730,039	**675,049**	825,004	730,039
Unquoted Omani shares				**1,010**	1,010	1,010	**1,010**	1,010	1,010
Investment fund units				**14,279**	12,450	14,217	**11,717**	11,717	11,717
				690,337	838,467	745,266	**687,776**	837,731	742,766
Total				**774,429**	896,324	823,311	**768,406**	893,274	817,564

13 Financial investments (continued)

Details of classification of investments are given below:

Details of AFS investments are as follows:

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Cost of:			
Quoted - Foreign Government securities	**7,893**	2,881	2,276
Quoted - Equity investments	**72,737**	52,662	72,522
Unquoted investments and other securities	**687,776**	837,731	742,766
	768,406	893,274	817,564
Revaluation gain of:			
Quoted - Equity and other securities	**6,023**	3,050	5,747
	774,429	896,324	823,311

14 Other assets

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Derivatives - positive mark to market	**726**	959	1,224
Prepayments and accrued income	**1,684**	1,236	1,507
Deferred tax asset	**3,866**	4,324	3,959
Acceptances	**65,519**	73,778	51,986
Others	**1,783**	32,287	3,042
	73,578	112,584	61,718

15 Intangible assets

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Core deposits	**12,306**	12,306	12,306
Customer relationships	**3,691**	3,691	3,691
	15,997	15,997	15,997
Less: amortised	**(4,189)**	(1,904)	(3,618)
	11,808	14,093	12,379

16 Property and equipment

RO 0.21m of property and equipment were added during the period (March 2013: RO 1.1m).

17 Deposits from customers

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Deposits details are as follows:			
Current and call	**1,174,348**	1,335,039	1,123,324
Savings	**449,785**	427,022	430,565
Time deposits	**319,921**	347,185	232,754
Others	**4,088**	6,325	6,060
	1,948,142	2,115,571	1,792,703

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

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
0-6 months	**784,682**	937,771	782,837
6-12 months	**297,410**	414,663	288,011
1-3 years	**124,311**	137,486	140,970
3-5 years	**303,091**	132,442	137,984
Over 5 years	**438,648**	493,209	442,901
	1,948,142	2,115,571	1,792,703

The interest rate bands of deposits are as follows:

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
0-2%	**1,753,725**	1,985,088	1,768,355
2-4%	**191,314**	125,754	21,296
4-6%	**47**	588	39
6-8%	**112**	261	206
8-10 %	**2,944**	3,612	2,807
more than 10%	**-**	268	-
	1,948,142	2,115,571	1,792,703

18 Other liabilities

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Derivatives - negative mark to market	**1,452**	2,189	1,563
Deferred tax liability	**1,252**	873	1,237
Retirement benefit liability	**570**	936	603
Acceptances	**65,519**	73,778	51,986
Tax liability	**4,384**	3,208	4,155
Accruals and deferred income	**1,622**	2,264	1,422
Obligation under finance lease	**1,063**	-	1,031
Others	**14,381**	28,984	18,511
	90,243	112,232	80,508

19 Contingent liabilities, commitments and derivatives

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Forward forex contracts – sales	**264,916**	40,316	117,599
Forward forex contracts – purchases	**266,487**	42,250	119,423
Currency swaps	**73,575**	136,066	39,377
Interest rate swaps	**95,557**	21,965	18,557
Undrawn unconditionally cancellable commitments	**637,980**	698,096	747,239
Undrawn unconditionally non-cancellable commitments	**81,466**	18,947	38,544
	1,419,981	957,640	1,080,739

As at 31 March 2014, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore they do not consider it necessary to make any additional provisions in this regard.

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

		Valuation techniques		
	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	RO’000	RO’000	RO’000	RO’000
At 31 March 2014				
Assets				
Derivatives	**-**	**726**	**-**	**726**
Financial investments: available-for-sale	**15,628**	**757,791**	**1,010**	**774,429**
Liabilities				
Derivatives	**-**	**1,452**	**-**	**1,452**
At 31 March 2013				
Assets				
Derivatives	-	959	-	959
Financial investments: available-for-sale	9,585	885,729	1,010	896,324
Liabilities				
Derivatives	-	2,189	-	2,189

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

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

21 Asset liability mismatch

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

	31 March 2014			31 March 2013			31 December 2013		
Maturities	**Assets**	**Liabilities and equity**	**Mismatch**	Assets	Liabilities and equity	Mismatch	Assets	Liabilities and equity	Mismatch
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
0-6 months	**1,464,558**	**893,723**	**570,835**	1,557,592	1,083,762	473,830	1,324,867	905,305	419,562
6-12 months	**71,345**	**307,160**	**(235,815)**	93,985	420,753	(326,768)	80,520	299,796	(219,276)
1-3 years	**101,603**	**126,356**	**(24,753)**	137,379	137,486	(107)	73,404	140,993	(67,589)
3-5 years	**242,069**	**303,091**	**(61,022)**	261,810	132,442	129,368	228,493	137,984	90,509
more than 5 years	**487,629**	**736,874**	**(249,245)**	510,418	786,741	(276,323)	513,604	736,810	(223,206)
	2,367,204	**2,367,204**	**-**	2,561,184	2,561,184	-	2,220,888	2,220,888	-

22 Exposure to credit risk

	Loans and advances (As per CBO)			**Due from banks**			**Financial investments**		
	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000	**31 March 2014 RO'000**	31 March 2013 RO'000	31 December 2013 RO'000	**31 March 2014 RO'000**	31 March 2013 RO'000	31 December 2013 RO'000
Individually impaired - non performing	**96,318**	88,867	94,668	**-**	-	-	**-**	-	-
Provision for loan impairment specific and reserved interest	**(88,563)**	(80,146)	(86,766)	**-**	-	-	**-**	-	-
Carrying amount of non-performing	**7,755**	8,721	7,902	**-**	-	-	**-**	-	-
Past due and not impaired	**23,392**	43,310	25,751	**-**	-	-	**-**	-	-
Neither past due nor impaired	**1,000,611**	1,027,752	961,056	**246,643**	194,563	194,311	**774,429**	896,324	823,311
General provision	**(14,612)**	(14,943)	(14,237)	**-**	-	-	**-**	-	-
Total carrying amount	**1,017,146**	1,064,840	980,472	**246,643**	194,563	194,311	**774,429**	896,324	823,311

23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO 0.100 each (31 March 2013 – 2,000,312,790 shares of RO 0.100 each) against the authorised share capital of 7,500 million shares of RO 0.100 each (31 March 2013 – 7,500 million of shares of RO 0.100 each)

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

Major Shareholder

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

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

24 Reserves

(a) Legal reserve

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

(b) Statutory reserve

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

(c) Available-for-sale fair value reserve

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

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

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

Related parties also 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.

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

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

	Significant shareholder - HSBC and related group entities	**Directors**	**Key management personnel**	**Others**	**Total**
31 March 2014	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Loans and advances	**-**	**-**	**-**	**8,693**	**8,693**
Current, deposit and other accounts	**-**	**32**	**-**	**18,427**	**18,459**
Letters of credit and guarantees	**-**	**-**	**-**	**9,291**	**9,291**
Due from banks	**58,778**	-	-	-	**58,778**
Due to banks	**10,991**	-	-	-	**10,991**
For the period ended 31 March 2014					
Net fee income	**40**	-	-	-	**40**
Other operating expenses:	**(2,631)**	**(4)**	**(721)**	**(23)**	**(3,379)**

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

Related party loans and advances bear interest at rates between 3% p.a. and 8% p.a. related party deposits bear interest at rates between 0.25% p.a. and 1.25% p.a.

26 Operating segments

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

Geographical areas

A geographical analysis of key financial data by location of primary assets as at 31 March 2014 is set out below:

31 March 2014	**Oman RO'000**	**Others RO'000**	**Adjustments RO'000**	**Total RO'000**
Net operating income before loan impairment charges and other credit risk provisions	**16,112**	**8**	**-**	**16,120**
Loan impairment charges and other credit risk provisions – net of recoveries	**(231)**	**-**	**-**	**(231)**
Net operating income	**15,881**	**8**	**-**	**15,889**
Total operating expenses	**(11,995)**	**(267)**	**-**	**(12,262)**
Profit before tax	**3,886**	**(259)**	**-**	**3,627**
Tax expense	**(540)**	**-**	**-**	**(540)**
Profit for the period	**3,346**	**(259)**	**-**	**3,087**
Loans and advances to customers (net)	**1,017,059**	**87**	**-**	**1,017,146**
Total assets	**2,361,722**	**30,650**	**(25,168)**	**2,367,204**
Deposits from customers	**1,940,177**	**7,965**	**-**	**1,948,142**
Total liabilities	**2,063,888**	**12,219**	**(10,537)**	**2,065,570**

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

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

Business Line segment

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

27 Capital adequacy ratio

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

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
CET 1/Tier 1 capital	**276,716**	271,281	276,716
Tier 2 capital (T2)	**16,572**	16,739	16,572
Total regulatory capital	**293,288**	288,020	293,288
Risk-weighted assets	**1,479,421**	1,631,764	1,452,846
CET 1 / Tier 1 capital ratio	**18.70%**	16.63%	19.05%
Total capital ratio	**19.82%**	17.65%	20.19%

28 Cash and cash equivalents

	31 March 2014 RO'000	31 March 2013 RO'000	31 December 2013 RO'000
Unaudited interim condensed statement of financial position comprises:			
Cash and balances with central banks	**212,998**	248,230	117,629
Due from banks	**246,643**	194,563	194,311
Due to banks	**(27,185)**	(34,151)	(41,830)
	432,456	408,642	270,110
Adjustment for items maturing after three months from date of acquisition and restricted balances	**(15,887)**	(15,885)	(15,886)
	416,569	392,757	254,224
Cash and cash equivalent comprise:			
Cash and balances with central banks	**197,111**	232,345	101,743
Due from banks	**246,643**	194,563	194,311
Due to banks	**(27,185)**	(34,151)	(41,830)
Total	**416,569**	392,757	254,224

29 Comparative balances

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