HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 June 2018

Interim Condensed Financial Information – 30 June 2018

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Presentation of information

This document comprises the Interim Condensed Financial Information – 30 June 2018 for HSBC Bank Oman S.A.O.G. ('HBON') ('the Bank'). It contains Unaudited Interim Condensed Financial Information, together with the Board of Directors' Report, the Auditor's review report and the Summary of Unaudited Results.

Board of Directors' Report for the six months ended 30 June 2018

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your Bank's financial results for the six months ended 30 June 2018.

Performance Summary

I am encouraged by our results for the first half of 2018. Our first half performance shows an 87.8% increase in net profit to RO15.4 M compared with RO8.2 M for the same period in 2017, driven primarily by a 19.6% growth in our revenues.

Net interest income grew by 15.5% to RO29.8 M for the period ended 30 June 2018 compared with RO25.8 M for the same period in 2017, on the back of a 5.0% growth in customer loans and advances as well as due to a rising yield on investments using our strong surplus liquidity. Net fee income increased by 29.4% to RO6.6 M for the period ended 30 June 2018, on the back of higher structuring and advisory fees reflecting our ability to leverage the broader HSBC Group to the benefit of our customers.

Net trading income increased by 25.5% to RO5.9 M compared with RO4.7 M for the same period last year owing to higher trading volumes and Balance Sheet Management optimisation.

A net release of RO1.0 M has been reported in the Bank's expected credit losses and other credit impairment charges compared with a net charge of RO1.3 M for the same period last year. The Bank saw a release of RO3.6 M in the Wholesale portfolio offset by a RO2.6 M charge in the Retail portfolio. (The IFRS 9 expected credit losses and other credit impairment charges for the current period are not comparable to the IAS 39 loan impairment charges for the same period last year. Please refer to Note 3 - accounting policies of the financial information for further information.)

Operating expenses rose by 2.4% to RO25.2 M compared with RO24.6 M for the same period in 2017 owing to higher IT-related expenses.

Loans and advances to customers grew by 5.0% to RO1,397.0 M compared with RO1,331.1 M as at 30 June 2017, growth largely being in the Bank's wholesale loans and advances.

Customer deposits increased by 4.6% to RO2,049.0 M compared with RO1,958.8 M as at 30 June 2017.

HBON's Capital Adequacy Ratio (CAR) stood at 18.7% as at 30 June 2018 compared with 16.91% as at 30 June 2017.

Delivering the best customer experience

In Retail Banking and Wealth Management, we continued our focus on customer growth in the premium segments, leveraging the momentum built by the acquisition campaign in 1Q18. During the Quarter we launched a new Visa Platinum card to satisfy the changing needs of our mass affluent customers.

Our existing Gold cardholders were provided a free upgrade to the new Platinum credit card. We also strengthened our Advance proposition by increasing the number of lounges our Advance MasterCard cardholders can access from 10 to 25 lounges.

On the digital front, we increased our "new to bank" digital engagement from 42% to 45% during the Quarter and installed a new ATM in Khaboura.

In Wholesale Banking, asset growth has remained robust as we continue to provide strong support to our Corporate customers across our product range. Our global liquidity and cash management platform remains market leading, allowing us to provide best in class solutions both locally and internationally, leveraging both our local knowledge, capabilities and expertise, combined with the regional and global connectivity of the HSBC Group.

We continue to invest in our digital solutions, and are working with our Corporate and Government clients to improve efficiency, reduce cost and modernise treasury functions through our digital platforms, such as HSBCnet. These allow clients to securely manage payments, receivables and cash flow using real-time transaction information.

Investing in our people and the community

Supporting the country's national recruitment policy, 500 Omani candidates were invited to attend interviews for the career opportunities made available by the Bank under the government's national recruitment drive. Additional candidate profiles are being screened.

The Bank organised several charitable activities during the holy month of Ramadan. The main activity was a Market Fair that gave some 1,600 local workers the opportunity to 'shop' for products such as blankets, pillows and hygiene products using gift vouchers which the Bank offered to each attendee. The Bank also collaborated with the Womens' Associations in different regions to distribute vouchers to 630 needy families across the Sultanate.

Conclusion

I would like to express my thanks and appreciation, as always, to all our stakeholders and to the Central Bank of Oman and the Capital Market Authority for their continuing support.

On behalf of the Board of Directors I would also like to express my sincere gratitude to His Majesty Sultan Qaboos bin Said for his wise leadership. We affirm our full support for the Omani Government at all times.

Sir Sherard Cowper-Coles
Chairman

Summary of unaudited results for the six month period ended 30 June 2018

	30 June 2018	30 June 2017	
	RO’000	RO’000	Change (%)
Loans and advances to customers - net	**1,397,029**	1,331,147	4.9%
Customer deposits	**2,049,034**	1,958,800	4.6%
Net assets	**322,899**	312,051	3.5%
* **Net assets per share**	**0.161**	0.156	3.2%

	Six month period ended	Six month period ended	
	30 June 2018	30 June 2017	Change (%)
	RO’000	RO’000	
Net interest income	**29,818**	25,780	15.7%
Profit for the period	**15,369**	8,217	87.0%
** **Earnings per share (annualised)**	**0.015**	0.008	87.5%
*****Capital adequacy ratio (CAR)**	**18.71%**	16.91%	1.8%

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

** *Earnings per share (annualised) has been calculated by dividing the annualised net profit after tax attributable to ordinary shareholders for the period ended 30 June 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.*

Report on review of interim condensed financial information to the directors of HSBC Bank Oman SAOG

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Bank Oman SAOG as at 30 June 2018, and the related interim condensed statement of comprehensive income for the three month and six month periods then ended, and interim condensed statements of changes in equity and cash flows for the six month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed 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 this interim condensed 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. 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 accompanying interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting' and the minimum disclosure requirements issued by the Capital Market Authority ("CMA").

PricewaterhouseCoopers

26 July 2018
Muscat, Sultanate of Oman

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Unaudited interim condensed statement of comprehensive income for the six month period ended 30 June 2018

	Notes	**Three month period ended 30 June 2018 RO'000**	Three month period ended 30 June 2017 RO'000	**Six month period ended 30 June 2018 RO'000**	Six month period ended 30 June 2017 RO'000
Interest income	*5*	**17,455**	15,610	**34,505**	30,225
Interest expense	*6*	**(2,376)**	(2,260)	**(4,687)**	(4,445)
Net interest income		**15,079**	13,350	**29,818**	25,780
Fee income		**3,657**	3,080	**8,234**	6,351
Fee expense		**(824)**	(634)	**(1,589)**	(1,274)
Net fee income		**2,833**	2,446	**6,645**	5,077
Net trading income		**3,596**	2,039	**5,883**	4,730
Changes in fair value of financial investments measured at fair value through profit and loss		**(165)**	N/A	**(201)**	N/A
Dividend income		**128**	105	**128**	111
Other operating income - net	*7*	**460**	32	**485**	84
Net operating income before loan impairment charges and other credit risk provisions		**21,931**	17,972	**42,758**	35,782
Change in expected credit losses and other credit impairment charges	*8*	**(607)**	N/A	**993**	N/A
Loan impairment charges and other credit risk provisions - net of recoveries	*8*	**N/A**	(2,566)	**N/A**	(1,336)
Net operating income		**21,324**	15,406	**43,751**	34,446
Operating expenses	*9*	**(11,979)**	(11,840)	**(24,085)**	(23,422)
Amortisation of intangible assets	*10*	**(572)**	(572)	**(1,143)**	(1,143)
Total operating expenses		**(12,551)**	(12,412)	**(25,228)**	(24,565)
Profit before tax		**8,773**	2,994	**18,523**	9,881
Tax expense		**(1,509)**	(503)	**(3,154)**	(1,664)
Profit for the period		**7,264**	2,491	**15,369**	8,217
Other comprehensive income / (loss)					
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Available-for-sale investments					
-Fair value gain		**N/A**	(84)	**N/A**	82
-Fair value gain reclassified to profit or loss on disposal		**N/A**	(3)	**N/A**	(37)
-Income tax		**N/A**	8	**N/A**	81
		-	(79)	**-**	126
Debt instruments at fair value though other comprehensive income					
-Fair value gain / (loss)		**484**	N/A	**(82)**	N/A
-Expected credit losses recognised in income statement		**(16)**	N/A	**(185)**	N/A
-Income tax		**(73)**	N/A	**12**	N/A
		395	**-**	**(255)**	**-**
Other comprehensive income / (loss) for the period - net of tax		**395**	(79)	**(255)**	126
Total comprehensive income for the period		**7,659**	2,412	**15,114**	8,343
Earnings per share – basic and diluted (RO)	*11*				
-for the period		**0.004**	0.001	**0.008**	0.004
-annualised		**0.015**	0.005	**0.015**	0.008

The accompanying notes on pages 11 to 41 form an integral part of this interim condensed financial information.

Unaudited interim condensed statement of financial position as at 30 June 2018

	Notes	At 30 June 2018	At 30 June 2017	Audited At 31 December 2017
		RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		**122,323**	222,293	223,806
Due from banks		**350,416**	125,208	40,363
Loans and advances to customers - net	*12*	**1,397,029**	1,331,147	1,394,887
Financial investments	*13*	**516,697**	631,345	614,921
Other assets	*14*	**31,790**	28,260	28,793
Intangible assets	*15*	**2,096**	4,381	3,239
Property and equipment	*16*	**25,766**	26,243	26,238
Deferred tax assets		**2,358**	2,199	1,550
Total assets		**2,448,475**	2,371,076	2,333,797
Liabilities and equity				
Liabilities				
Due to banks		**38,293**	52,827	35,958
Deposits from customers	*17*	**2,049,034**	1,958,800	1,932,050
Other liabilities	*18*	**33,862**	42,238	37,908
Current tax liabilities		**4,387**	5,160	4,625
Total liabilities		**2,125,576**	2,059,025	2,010,541
Equity				
Share capital	*23*	**200,031**	200,031	200,031
Legal reserve	*24(a)*	**39,879**	37,967	39,879
Fair value through other comprehensive income reserve	*24(b)*	**(1,770)**	N/A	N/A
Available-for-sale fair value reserve	*24(c)*	**N/A**	(2,603)	(2,166)
Retained earnings		**84,759**	76,656	85,512
Net equity		**322,899**	312,051	323,256
Total liabilities and equity		**2,448,475**	2,371,076	2,333,797
Net assets per share - RO		**0.161**	0.156	0.162
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		**45,452**	46,857	63,450
- Guarantees and performance bonds		**580,543**	339,451	382,152
- Others	*19*	**1,219,724**	834,504	838,934
		1,845,719	1,220,812	1,284,536

The accompanying notes on pages 11 to 41 form an integral part of this interim condensed financial information.

The interim condensed financial information were authorised for issue on 26 July 2018 in accordance with the resolution of the Board of Directors.

Sir Sherard Cowper-Coles
Chairman

Andrew Long
Chief Executive Officer

Unaudited interim condensed statement of changes in equity for the six month period ended 30 June 2018

	Share capital RO'000	Legal reserve RO'000	FVOCI reserve RO'000	Available-for-sale fair value reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2017	200,031	37,967	N/A	(2,729)	78,441	313,710
Total comprehensive income for the period						
Profit for the period	-	-	N/A	-	8,217	8,217
Other comprehensive income for the period						
Net movement in fair value of available-for-sale investments (net of tax)	-	-	N/A	126	-	126
Total other comprehensive income for the period	-	-	N/A	126	-	126
Total comprehensive income for the period	-	-	N/A	126	8,217	8,343
Transaction with shareholders, recorded directly in equity						
Dividend for 2016	-	-	N/A	-	(10,002)	(10,002)
At 30 June 2017	200,031	37,967	N/A	(2,603)	76,656	312,051
At 1 January 2018	**200,031**	**39,879**	**(2,166)**	**N/A**	**85,512**	**323,256**
Changes in initial application of IFRS 9 (see note 3)	**-**	**-**	**651**	**N/A**	**(4,720)**	**(4,069)**
Restated balances as at 1 January 2018	**200,031**	**39,879**	**(1,515)**	**N/A**	**80,792**	**319,187**
Total comprehensive income for the period						
Profit for the period	**-**	**-**	**-**	**N/A**	**15,369**	**15,369**
Other comprehensive loss for the period						
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	**-**	**-**	**(255)**	**N/A**	**-**	**(255)**
Total other comprehensive loss for the period	**-**	**-**	**(255)**	**N/A**	**-**	**(255)**
Total comprehensive (loss) / income for the period	**-**	**-**	**(255)**	**N/A**	**15,369**	**15,114**
Transaction with shareholders, recorded directly in equity						
Dividend for 2017	**-**	**-**	**-**	**N/A**	**(11,402)**	**(11.402)**
At 30 June 2018	**200,031**	**39,879**	**(1,770)**	**N/A**	**84,759**	**322,899**

The accompanying notes on pages 11 to 41 form an integral part of this interim condensed financial information

Unaudited interim condensed statement of cash flows for the six month period ended 30 June 2018

	Notes	**Six month period ended 30 June 2018 RO'000**	Six month period ended 30 June 2017 RO'000
Cash flows from operating activities			
Profit before tax		**18,523**	9,881
Adjustments for:			
- Changes in fair value of financial investments measured at fair value through profit and loss		**201**	-
-Net gain on sale of financial investments	7	**(5)**	(31)
- Change in expected credit losses and other credit impairment charges	8	**(993)**	N/A
- Loan impairment charges and other credit risk provisions – net of recoveries	8	**N/A**	1,336
-Depreciation of property and equipment	9	**795**	828
-Amortisation of intangible assets	10	**1,143**	1,143
-Amortisation of discount on financial investment		**(2,079)**	(1,132)
-Employer's current service cost, with interest		**181**	95
-Finance leases charge		**20**	28
-Effect of currency translation		**-**	(457)
-Change in operating assets			
Change in loans and advances to customers – net		**(3,005)**	85,932
Change in other assets		**(3,063)**	(4,961)
-Change in operating liabilities			
Change in deposits from customers		**116,984**	92,145
Change in other liabilities		**(7,244)**	12,129
-Retirement benefits paid		**(102)**	(35)
-Tax paid		**(3,413)**	(2,690)
Net cash generated from operating activities		**117,943**	194,211
Cash flows from investing activities			
Purchase of financial investments		**(1,211,591)**	(1,556,048)
Proceeds from maturity of financial investments		**1,311,609**	1,339,337
Purchase of property and equipment		**(324)**	(571)
Proceeds from sale of property and equipment		**-**	4
Net cash generated from / (used in) investing activities		**99,694**	(217,278)
Cash flows from financing activity			
Dividends paid		**(11,402)**	(10,002)
Net cash used in financing activity		**(11,402)**	(10,002)
Net change in cash and cash equivalents		**206,235**	(33,069)
Cash and cash equivalents at the beginning of the period		**228,211**	327,743
Cash and cash equivalents at the end of the period	28	**434,446**	294,674

The accompanying notes on pages 11 to 41 form an integral part of these interim condensed financial information.

1 Legal status and activities

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

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

2 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The interim condensed financial information of the Bank has 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'), 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 2017 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.

(b) Presentation of information

The functional currency of the Bank is Rials Omani ("RO"), which is also the presentation currency used in the interim condensed financial information of the Bank.

(c) Corresponding figures

This interim condensed financial information include corresponding figures information as required by IAS 34 and CMA proforma.

(d) Use of estimates and assumptions

The preparation of interim condensed 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 impairment of loans and advances, the valuation of financial instruments and the impairment of financial investments carried at fair value through other comprehensive income / available-for-sale financial assets. Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in note 3 of this interim condensed financial information.

2 Basis of preparation (continued)

(e) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of the Bank are provided in the Annual Report and Accounts 2017.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019. None of these are expected to have a significant effect on the interim condensed financial information of the Bank. However, the Bank is currently in process of assessing the impact of IFRS 16 'Leases' on its interim condensed financial information.

3 Accounting policies

The accounting policies applied by the Bank in this interim condensed financial information are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2017, except for IFRS 9 'Financial Instruments' which was adopted from 1 January 2018. As permitted by the transitional requirements of IFRS 9, comparatives have not been restated. In addition, the Bank has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018, which had an insignificant effect on the interim condensed financial information of the Bank.

Set out below are the new or substantially revised accounting policies due to implementation of IFRS 9 which replaces the existing IAS 39 "Financial Instruments: Recognition and Measurement" policies. The accounting policies on hedge accounting are substantially unchanged and are not repeated. The following policies will substantially replace existing policies of note 2.3 in the Annual Report and Accounts of 2017 with subsequent policies in the Annual Report and Accounts of 2018 being renumbered:

(a) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan becomes impaired. Financial assets measured at amortised cost are recognised at trade date.

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Bank enters into contractual arrangements to purchase, and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the statement of comprehensive income as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in statement of profit or loss.

(c) Equity securities measured at fair value with fair value movements presented in Other Comprehensive Income (OCI)

The equity securities for which fair value movements are shown in OCI are investments where the Bank holds the investments other than to generate a capital return. Gains or losses on derecognition of these equity securities are not transferred to statement of profit or loss. Otherwise equity securities are measured at fair value through profit or loss but directly transferred to retained earnings.

3 Accounting policies (continued)

(d) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;

- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and

- where the financial liability contain one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the statement of comprehensive income in ‘Net income from financial instruments designated at fair value’.

(e) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a standalone basis.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in ‘Net trading income’. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value are reported in ‘Net income from financial instruments designated at fair value’ together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the Bank that are designated at fair value, the contractual interest is shown in ‘Interest expense’ together with the interest payable on the issued debt. In accordance with the transitional requirements of IFRS 9 the Bank exercised the option to remain with IAS 39 hedge accounting.

(f) Impairment of amortised cost and FVOCI financial assets

Expected credit losses (‘ECL’) are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instrument measured at fair value through other comprehensive income (‘FVOCI’), and certain loan commitments, acceptances and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (‘12-month ECL’). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Financial assets where 12-month ECL is recognised are considered to be ‘stage 1’; financial assets which are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in ‘stage 3’.

(i) Credit impaired (stage 3)

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, whether there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower’s financial condition, or the loan is otherwise considered to be in default. Therefore the

3 Accounting policies (continued)

(f) Impairment of amortised cost and FVOCI financial assets (continued)

(i) Credit impaired (stage 3) (continued)

definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

(ii) Write off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

(iii) Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be Purchased or originated credit impaired (POCI) and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stages 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

(iv) Loan modifications that are not renegotiations

Loan modifications that are not renegotiation are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

(v) Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor and the determination of whether a specific factor is relevant and its weight

3 Accounting policies (continued)

(f) Impairment of amortised cost and FVOCI financial assets (continued)

(v) Significant increase in credit risk (stage 2) (continued)

compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompass a wide range of information including the obligor's Credit Risk Rating (CRR), macro-economic condition forecasts and credit transition probabilities. For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macro-economic conditions where these are not available without the use of hindsight. Credit deterioration is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date. The significance of changes in PD, was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps
Greater than 3.3 and not impaired	2x

Further information about the 23-grade scale used for CRR set out on note 30.3 of the Annual Report and Accounts 2017.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macro-economic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a life time PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the Stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due.

The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher from that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

3 Accounting policies (continued)

(f) Impairment of amortised cost and FVOCI financial assets (continued)

(vi) Unimpaired and without significant increase in credit risk- (stage 1)

ECL resulting from default events that are possible within the next 12-months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

(vii) Purchased or originated credit impaired (POCI)

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change in lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

(viii) Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative deterioration in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, [observed over a minimum 1 year period] and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Bank calculates ECL using three main components, a probability of default ('PD'), a loss given default ('LGD'), and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12- month PD using a term structure. For the Wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

3 Accounting policies (continued)

(f) Impairment of amortised cost and FVOCI financial assets (continued)

(viii) Movement between stages (continued)

The ECL for Wholesale Stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as of the reporting date reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original EIR. For significant cases, cash flows under four different scenarios are probability weighted by reference to the three economic scenarios applied more generally by the group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work out strategies is approximated and applied as an adjustment to the most likely outcome.

(ix) Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions.

This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

(x) Forward-looking economic inputs

The Bank will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'Outer' scenarios on either side of the Central, referred to as an Upside and a Downside scenario respectively. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Bank current top and emerging risks. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80% and the Upside and Downside scenarios 10% each, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The central forecast and spread between the Central and Outer scenarios is grounded on the expected gross domestic product of the following major countries: UK, France, Hong Kong, mainland China, US, Canada, Mexico and the UAE.

3 Accounting policies (continued)

(f) Impairment of amortised cost and FVOCI financial assets (continued)

(x) Forward-looking economic inputs (continued)

The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices across all the countries in which HSBC operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

(xi) Critical accounting estimates and judgement

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of ‘upside scenarios’ which have not generally been subject to experience gained through stress testing.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

3 Accounting policies (continued)

(g) The reconciliation between the statement of financial position as of 31 December 2017 (IAS 39 accounting policies) and 1 January 2018 (revised accounting policies after implementing IFRS 9) is set out below;

Assets				**Reclassification**					
	IAS 39 measurement category	**IFRS 9 measurement category**	**IAS 39 carrying amount as at 31 December 2017**	**Fair value through profit or loss**	**Fair value through other comprehen-sive income**	**Amortised cost**	**Carrying amount Post reclassification**	**Remeasure-ment and IFRS 9 expected credit losses**	**IFRS 9 carrying amount as at 1 January 2018**
			RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with central bank	AC	AC	**223,806**	-	-	-	**223,806**	**(87)**	**223,719**
Due from banks	AC	AC	**40,363**	-	-	-	**40,363**	**-**	**40,363**
Loans and advances to customers - net	AC	AC	**1,394,887**	-	-	-	**1,394,887**	**(1,670)**	**1,393,217**
Financial investments									
- Debt instruments at available for sale	AFS	FVOCI	**611,751**	-	-	-	**611,751**	-	**611,751**
- Equity instruments at available for sale	AFS	FVOCI	**3,170**	**(2,920)**	-	-	**250**	-	**250**
- Designated and otherwise mandatorily measured at fair value through profit or loss	FVPL	FVPL	-	**2,920**	-	-	**2,920**	-	**2,920**
Other assets (prepayments, accrued income and others)	AC	AC	**22,415**	-	-	-	**22,415**	**(66)**	**22,349**
Derivatives	FVPL	FVPL	**6,378**	-	-	-	**6,378**	-	**6,378**
Deferred tax asset	N/A	N/A	**1,550**	-	-	-	**1,550**	**775**	**2,325**
Total assets in scope			**2,304,320**	-	-	-	**2,304,320**	**(1,048)**	**2,303,272**
Total assets not in scope			**29,477**	-	-	-	**29,477**	**-**	**29,477**
Total assets			**2,333,797**	-	-	-	**2,333,797**	**(1,048)**	**2,332,749**

AC = Amortised cost, AFS = Available for sale, FVPL = Fair value through profit or loss and FVOCI = Fair value through other comprehensive income.

3 Accounting policies (continued)

Liabilities	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount as at 31 December 2017	Reclassification: Fair value through profit or loss	Reclassification: Fair value through other comprehensive income	Reclassification: Amortised cost	Carrying amount post reclassification	Remeasurement and IFRS 9 expected credit losses	IFRS 9 carrying amount as at 1 January 2018
			RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Due to banks	AC	AC	**35,958**	-	-	-	**35,958**	-	**35,958**
Deposits from customers	AC	AC	**1,932,050**	-	-	-	**1,932,050**	-	**1,932,050**
Derivatives	FVPL	FVPL	**71**	-	-	-	**71**	-	**71**
Other liabilities excluding derivatives	AC	AC	**37,837**	-	-	-	**37,837**	-	**37,837**
Provisions (ECL on off balance sheet and other commitments)	N/A	N/A	-	-	-	-	-	**3,021**	**3,021**
Total liabilities in scope			**2,005,916**	-	-	-	**2,005,916**	**3,021**	**2,008,937**
Total liabilities not in scope			**4,625**	-	-	-	**4,625**	-	**4,625**
Total liabilities			**2,010,541**	-	-	-	**2,010,541**	**3,021**	**2,013,562**

Net equity	IAS 39 carrying amount as at 31 December 2017	Reclassification	Carrying amount post reclassification	Remeasurement and IFRS 9 expected credit losses	IFRS 9 carrying amount as at 1 January 2018
	RO'000	RO'000	RO'000	RO'000	RO'000
Share capital	**200,031**	**-**	**200,031**	-	**200,031**
Legal reserve	**39,879**	**-**	**39,879**	-	**39,879**
Available-for-sale fair value reserve	**(2,166)**	**2,166**	-	-	**-**
Financial assets at FVOCI reserve	**-**	**(1,838)**	**(1,838)**	**323**	**(1,515)**
Retained earnings	**85,512**	**(328)**	**85,184**	**(4,392)**	**80,792**
Net equity	**323,256**	-	**323,256**	**(4,069)**	**319,187**

3 Accounting policies (continued)

(h) Reconciliation of impairment allowance under IAS 39 and IFRS 9 expected credit losses is set out below;

		Reclassification			Remeasurement		
	IAS 39 measurement category	Fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Stage 3	Stage 1 and 2	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Financial assets at amortised cost							
Provision as per IAS 39 as at 31 December 2017							**36,537**
Cash and balances with central bank	AC	-	-	-	-	**87**	**87**
Loans and advances to customers - net	AC	-	-	-	-	**1,670**	**1,670**
Financial investments	AC	-	-	-	-	**323**	**323**
Other assets (prepayments, accrued income and other assets)	AC	-	-	-	-	**66**	**66**
Provisions (ECL on off balance sheet and other commitments)	AC	-	-	-	-	**3,021**	**3,021**
Expected credit loss allowance/provisions at 1 Jan 2018		-	-	-	-	**5,167**	**41,704**

4 Products and services

The Bank provides a comprehensive range of banking and related financial services to its customers.

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

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

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

- Corporate Centre: During 2017, the HBON management realigned certain functions into a Corporate Center, including other and Balance Sheet Management ('BSM').

5 Interest income

Interest bearing assets earned interest at an overall annualised rate of 3.20% for the six month period ended 30 June 2018 (30 June 2017 – 3.02%).

	Six month period ended 30 June 2018 RO'000	Six month period ended 30 June 2017 RO'000
Loans and advances to customers	**30,387**	27,271
Financial investments	**3,136**	2,371
Due from banks	**1,081**	339
Others	**(99)**	244
	34,505	30,225

6 Interest expense

For the six month period ended 30 June 2018, the average overall annualised cost of funds was 0.46% (30 June 2017 – 0.45%).

	Six month period ended 30 June 2018 RO'000	Six month period ended 30 June 2017 RO'000
Deposits from customers	**(4,687)**	(4,445)

7 Other operating income – net

	Six month period ended 30 June 2018 RO'000	Six month period ended 30 June 2017 RO'000
Gain on derecognition of financial assets measured at amortised cost	**429**	-
Net gain on sale of financial investments	**5**	31
Other income	**51**	53
	485	84

8 Change in expected credit losses and other credit impairment charges / loan impairment charges and other credit risk provisions - net of recoveries

	Six month period ended 30 June 2018 RO'000	Six month period ended 30 June 2017 RO'000
Net change in ECL allowances on loans and advances	**358**	N/A
Amounts written off net of recoveries	**(1,434)**	(1,789)
Net change in ECL / loan impairment charges	**(1,076)**	(1,789)
Individually assessed allowance (as per IAS 39)	**N/A**	(459)
Collectively assessed allowances (as per IAS 39)	**N/A**	912
Net change in ECL allowance on financial investments	**185**	N/A
Net change in ECL allowance on other financial instruments and off balance sheet items	**1,884**	N/A
Change in expected credit losses and other credit impairment charges / loan impairment charges and other credit risk provisions – net of recoveries	**993**	(1,336)

9 Operating expenses

	Six month period ended 30 June 2018 RO'000	Six month period ended 30 June 2017 RO'000
Employee compensation and benefits	**(11,428)**	(11,333)
General and administrative expenses*	**(11,862)**	(11,261)
Depreciation of property and equipment	**(795)**	(828)
	(24,085)	(23,422)

* General and administrative expenses for the current period include the RO0.6 M of "Mandoos Prize" draw expenses (30 June 2017: RO1.2 M).

10 Amortisation of intangible assets

	Six month period ended 30 June 2018 RO'000	Six month period ended 30 June 2017 RO'000
This represents amortisation of intangible assets as a result of business combination and is accounted for as follows :		
- Core deposits	**(880)**	(880)
- Customer relationships	**(263)**	(263)
	(1,143)	(1,143)

11 Earnings per share – basic and diluted

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

	Six month period ended 30 June 2018	Six month period ended 30 June 2017	Year ended 31 December 2017
Weighted average number of shares in issue ('000)	**2,000,312**	2,000,312	2,000,312
Net profit for the period / year (RO'000)	**15,369**	8,217	19,116
Earnings per share – basic and diluted (RO)			
- for the period / year	**0.008**	0.004	0.010
- annualised	**0.015**	0.008	0.010

12 Loans and advances to customers - net

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

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Overdrafts	**64,208**	67,371	59,926
Credit cards	**25,647**	24,001	22,376
Loans	**1,034,747**	1,028,387	1,057,348
Clean import loans	**323,535**	266,195	303,905
Bills discounted / purchased	**22,508**	30,496	21,278
Gross loans and advances	**1,470,645**	1,416,450	1,464,833
ECL Allowances	**(37,554)**	N/A	N/A
Provision for loan impairment - specific	**N/A**	(26,954)	(18,248)
Provision for loan impairment - general*	**N/A**	(17,692)	(18,289)
Reserved interest	**(36,062)**	(40,657)	(33,409)
Net loans and advances	**1,397,029**	1,331,147	1,394,887

* General provision represents collective provision under IAS 39 on a portfolio of loans and advances to customers.

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

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
0-5%	**1,025,940**	941,666	1,039,860
5-7%	**333,186**	336,442	309,445
7-10%	**43,294**	66,921	50,872
10-13%	**38,831**	38,254	38,451
More than 13%	**29,394**	33,167	26,205
	1,470,645	1,416,450	1,464,833

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

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
0-6 months	**498,325**	453,526	513,928
6-12 months	**11,908**	7,665	6,922
1-3 years	**147,069**	75,843	73,339
3-5 years	**138,558**	162,343	154,303
More than 5 years	**601,169**	631,770	646,395
	1,397,029	1,331,147	1,394,887

12 Loans and advances to customers – net (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Personal and consumer loans	**500,746**	486,801	488,559
Corporate and commercial			
Import trade	**249,084**	244,829	233,842
Construction	**38,889**	79,320	46,574
Manufacturing	**252,830**	103,934	235,152
Wholesale and retail trade	**71,409**	64,104	70,137
Electricity, gas, water, transportation and communication	**52,831**	170,225	45,306
Services	**113,710**	121,253	170,543
Mining and quarrying	**121,320**	85,688	124,723
Others	**69,826**	60,296	49,997
	969,899	929,649	976,274
Total gross loans and advances	**1,470,645**	1,416,450	1,464,833
ECL Allowances	**(37,554)**	N/A	N/A
Provision for loan impairment - specific	**N/A**	(26,954)	(18,248)
Provision for loan impairment - general	**N/A**	(17,692)	(18,289)
Reserved interest	**(36,062)**	(40,657)	(33,409)
Net loans and advances	**1,397,029**	1,331,147	1,394,887
Non-performing loans (NPL)	**57,356**	72,670	55,269

The movement of ECL allowances on financial instruments for the six month period ended 30 June 2018 is analysed in the table below:

	Stage 1 RO'000	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
ECL allowance on financial instruments				
Balance at 1 January 2018	**2,873**	**17,940**	**20,891**	**41,704**
Transfer from stage 1 to stage 2	**(170)**	**170**	**-**	**-**
Transfer from stage 2 to stage 1	**3,624**	**(3,624)**	**-**	**-**
Transfer to stage 3	**-**	**(1,143)**	**1,143**	**-**
Transfer from stage 3	**-**	**2,425**	**(2,425)**	**-**
Net remeasurement of loss allowance	**(1,490)**	**(429)**	**(508)**	**(2,427)**
ECL released due to recoveries	**-**	**-**	**(220)**	**(220)**
Write-offs	**-**	**-**	**(254)**	**(254)**
Balance at 30 June 2018	**4,837**	**15,339**	**18,627**	**38,803**

12 Loans and advances to customers – net (continued)

The movement on provision for loan impairment for the six month period ended 30 June 2017 is analysed in the table below:

	Specific provision RO'000	General provision RO'000	Total provision RO'000
Balance at 1 January 2017	26,508	18,604	45,112
Provided during the period	1,742	-	4,416
Provisions released / written back	(1,283)	(912)	(2,195)
Written off during the period	(13)	-	(2,687)
Balance At 30 June 2017	26,954	17,692	44,646

The movement on reserved interest for the six month period ended is analysed below:

	30 June 2018 RO'000	30 June 2017 RO'000
Balance at the beginning of the period	**33,409**	37,210
Reserved during the period	**3,320**	3,866
Released to the statement of comprehensive income	**(198)**	(248)
Written off during the period	**(469)**	(171)
Balance at the end of the period	**36,062**	40,657

The estimated fair value of loans and advances is RO1,364.6 M as of 30 June 2018 (30 June 2017 – RO1,305.2 M and 31 December 2017 – RO1,375.4 M).

Impairment charge and provision held as of 30 June 2018 (as per CBO illustrative disclosure)

	As per CBO norms RO'000	**As per IFRS 9 RO'000**	**Difference RO'000**
Impairment loss released to profit and loss account	**568**	**993**	**425**
Provisions required*	**32,458**	**38,802**	**6,344**
Gross NPL ratio (percentage)	**3.90%**	**3.90%**	**-**
Net NPL ratio (percentage)	**0.55%**	**0.19%**	**0.36**

*Impairment loss charged in this interim condensed financial information is based on IFRS 9 as IFRS 9 ECL allowance is more than the CBO provision requirement.

12 Loans and advances to customers – net (continued)

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure)

Assets classification as per CBO Norms (1)	Assets classification as per IFRS 9 (2)	Gross carrying amount (3) RO'000	Provision required as per CBO Norms (4) RO'000	Provisions held as per IFRS 9 (5) RO'000	Difference between CBO provision required and provision held (6)=(4)-(5) RO'000	Net carrying amount (7)=(3)-(5) RO'000	Reserve interest as per CBO norms (8) RO'000
	Stage 1	884,150	13,542	3,693	9,849	870,541	67
Standard	Stage 2	485,876	4,968	11,734	(6,766)	480,903	5
	Stage 3	5,518	135	3,429	(3,294)	4,953	430
		1,375,544	18,645	18,856	(211)	1,356,397	502
	Stage 1	18,873	189	605	(416)	18,684	-
Special mention	Stage 2	16,254	170	2,776	(2,606)	16,033	51
	Stage 3	2,618	339	583	(244)	2,129	150
		37,745	698	3,964	(3,266)	36,846	201
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	183	46	119	(73)	134	3
	Stage 3	3,264	817	336	481	2,269	178
		3,447	863	455	408	2,403	181
	Stage 1	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-
	Stage 3	200	80	101	(21)	107	13
		200	80	101	(21)	107	13
	Stage 1	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-
	Stage 3	53,709	12,172	14,177	(2,005)	6,372	35,165
		53,709	12,172	14,177	(2,005)	6,372	35,165
Other items not covered	Stage 1	1,727,173	-	539	(539)	1,727,173	-
under CBO circular BM	Stage 2	41,205	-	710	(710)	41,205	-
977 and related instructions	Stage 3	-	-	-	-	-	-
		1,768,378	-	1,249	(1,249)	1,768,378	-
Total	Stage 1	2,630,196	13,731	4,837	8,894	2,616,398	67
	Stage 2	543,518	5,184	15,339	(10,155)	538,275	59
	Stage 3	65,309	13,543	18,626	(5,083)	15,830	35,936
	Total	3,239,023	32,458	38,802	(6,344)	3,170,503	36,062

12 Loans and advances to customers – net (continued)

Restructured loans and advances (as per CBO illustrative disclosure)

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount	Reserve interest as per CBO norms
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	10,463	-	1,840	(1,840)	10,414	49
	Stage 3	2,394	360	334	26	1,907	127
Sub Total		12,857	360	2,174	(1,814)	12,321	176
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	26,314	7,028	8,679	(1,651)	5,125	14,161
		26,314	7,028	8,679	(1,651)	5,125	14,161
Total	Stage 1	-	-	-	-	-	-
	Stage 2	10,463	-	1,840	(1,840)	10,414	49
	Stage 3	28,708	7,388	9,013	(1,625)	7,032	14,288
	Total	39,171	7,388	10,853	(3,465)	17,446	14,337

13 Financial investments

Financial investments details are provided as follows:

	Fair value 30 June 2018 RO'000	Fair value 30 June 2017 RO'000	Fair value 31 December 2017 RO'000	**Carrying value* 30 June 2018 RO'000**	Carrying value 30 June 2017 RO'000	Carrying value 31 December 2017 RO'000	**Cost 30 June 2018 RO'000**	Cost 30 June 2017 RO'000	Cost 31 December 2017 RO'000
Marketable securities – MSM									
Government bonds	**74,524**	78,232	62,036	**74,524**	78,232	62,036	**76,767**	81,298	64,911
	74,524	78,232	62,036	**74,524**	78,232	62,036	**76,767**	81,298	64,911
Unquoted and other investments									
Treasury bills	**439,353**	549,892	549,715	**439,353**	549,892	549,715	**439,353**	549,529	549,002
Unquoted Omani shares	**260**	260	260	**260**	260	260	**260**	260	260
Unquoted foreign shares	**7**	7	7	**7**	7	7	**7**	7	7
Investment fund units	**2,553**	2,954	2,903	**2,553**	2,954	2,903	**3,165**	3,312	3,289
	442,173	553,113	552,885	**442,173**	553,113	552,885	**442,785**	553,108	552,558
Total	**516,697**	631,345	614,921	**516,697**	631,345	614,921	**519,552**	634,406	617,469

*ECL allowance on financial investments amounting to RO0.1 M has been recorded in FVOCI reserve

13 Financial investments (continued)

Carrying amount of financial investments

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	**439,353**	N/A	N/A
Government bonds	**74,524**	N/A	N/A
Other investments	**250**	N/A	N/A
	514,127	N/A	N/A
Financial investments measured at fair value through profit or loss			
Equity investments	**2,570**	-	-
Available for sale financial investments			
Treasury bills	**N/A**	549,892	549,715
Government bonds	**N/A**	78,232	62,036
Equity and other investments	**N/A**	3,221	3,170
	N/A	631,345	614,921
	516,697	631,345	614,921

14 Other assets

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Acceptances	**12,528**	17,112	19,140
ECL on acceptances	**(17)**	N/A	N/A
Acceptances (net of ECL)	**12,511**	17,112	19,140
Derivatives - positive mark-to-market	**13,848**	6,288	6,378
Prepayments and accrued income	**981**	923	779
Others	**4,450**	3,937	2,496
	31,790	28,260	28,793

15 Intangible assets

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 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	**(13,901)**	(11,616)	(12,758)
	2,096	4,381	3,239

16 Property and equipment

RO0.3 M of furniture and equipment were added during the period (30 June 2017: RO0.6 M). Furniture, fixture and equipment disposed of during the period was RO0.1 M (30 June 2017: RO0.02 M).

17 Deposits from customers

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Deposits details are as follows:			
Current and call	**1,090,890**	982,544	951,159
Savings	**428,703**	475,593	437,849
Time deposits	**527,029**	498,235	540,845
Others	**2,412**	2,428	2,197
	2,049,034	1,958,800	1,932,050

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

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
0-6 months	**783,165**	721,336	689,616
6-12 months	**332,419**	260,345	286,904
1-3 years	**231,263**	396,466	392,012
3-5 years	**209,453**	161,872	157,542
Over 5 years	**492,734**	418,781	405,976
	2,049,034	1,958,800	1,932,050

The interest rate bands of deposits are as follows:

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
0-2%	**1,838,311**	1,752,872	1,724,687
2-4%	**210,723**	205,928	207,363
	2,049,034	1,958,800	1,932,050

18 Other liabilities

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Derivatives – negative mark-to-market	**352**	4,463	71
Retirement benefit liability	**1,079**	815	1,001
Acceptances	**12,528**	17,112	19,140
Provisions*	**1,282**	1,028	473
Accruals and deferred income	**5,333**	5,506	6,492
Obligation under finance lease	**252**	492	232
Others	**13,036**	12,822	10,499
	33,862	42,238	37,908

*Includes ECL allowances of RO0.9 M (30 June 2017: N/A and 31 December 2017: N/A) on off balance sheet exposure and other commitments.

19 Contingent liabilities, commitments and derivatives

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Undrawn unconditionally cancellable commitments	**592,091**	546,286	557,339
Undrawn unconditionally non-cancellable commitments	**31,159**	62,883	44,215
Forward foreign exchange contracts	**500,224**	148,335	160,380
Interest rate swaps	**96,250**	77,000	77,000
	1,219,724	834,504	838,934

As at 30 June 2018, 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 the management does 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		
	Level 1 RO'000	**Level 2 RO'000**	**Total RO'000**
At 30 June 2018			
Assets			
Derivatives	**-**	**13,848**	**13,848**
Financial investments at fair value through other comprehensive income	**237,903**	**276,224**	**514,127**
Financial investments at fair value through profit or loss	**-**	**2,570**	**2,570**
Liabilities			
Derivatives	**-**	**352**	**352**
Deposits from customers	**-**	**103,750**	**103,750**
At 30 June 2017			
Assets			
Derivatives	-	6,288	6,288
Financial investments: available-for-sale	92,279	538,799	631,078
Liabilities			
Derivatives	-	4,463	4,463
Deposits from customers	-	83,140	83,140
At 31 December 2017			
Assets			
Derivatives	-	6,378	6,378
Financial investments: available-for-sale	-	614,654	614,654
Liabilities			
Derivatives	-	71	71
Deposits from customers	-	83,665	83,665

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

Financial investments and derivatives

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

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

Foreign exchange contracts are valued based on the data derived from the market. The market value adjustment of foreign exchange contracts are included in the book value of other assets and other liabilities.

There has been no change to the basis of valuation of level 2 financial assets and liabilities disclosed in the latest audited financial statements of the Bank for the year ended 31 December 2017.

21 Asset liability mismatch

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

	30 June 2018			30 June 2017			31 December 2017		
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	**1,419,063**	**858,397**	**560,666**	1,360,251	820,850	539,401	1,318,713	767,309	551,404
6-12 months	**23,233**	**348,200**	**(324,967)**	17,432	269,186	(251,754)	29,034	306,561	(277,527)
1-3 years	**195,750**	**231,263**	**(35,513)**	104,485	396,549	(292,064)	128,597	392,268	(263,671)
3-5 years	**158,842**	**209,453**	**(50,611)**	205,318	161,872	43,446	159,371	157,542	1,829
more than 5 years	**651,587**	**801,162**	**(149,575)**	683,590	722,619	(39,029)	698,082	710,117	(12,035)
	2,448,475	**2,448,475**	**-**	2,371,076	2,371,076	-	2,333,797	2,333,797	-

22 Exposure to credit risk

Summary of financial instruments to which the impairment requirement in IFRS 9 are applied

	Gross carrying / nominal amount (net of reserved interest)	Allowance for ECL
At 30 June 2018	RO'000	RO'000
Cash and balances with central bank	122,521	(198)
Due from banks	350,418	(2)
Financial investments at FVOCI	514,127	(138)
Loans and advances to customers		
-RBWM	499,805	(9,721)
-Wholesale	934,778	(27,833)
Other assets*	12,528	(17)
Total gross carrying / nominal amount (net of reserved interest)	2,434,177	(37,909)
Documentary credits, guarantees and performance bonds, loan and other credit related commitments	625,995	(894)
Total nominal amount off balance sheet	625,995	(894)
Total	3,060,172	(38,803)

* Includes only acceptances which are subject to the impairment requirements of IFRS 9. Other assets as presented within the statement of financial position includes derivatives, prepayment and accrued income, acceptances and others.

23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 June 2017 and 31 December 2017 – 2,000,312,790 shares of RO0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO 0.100 each (30 June 2017 and 31 December 2017 – 7,500 million shares of RO 0.100 each).

Major Shareholder

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

	30 June 2018 Number of shares	30 June 2017 Number of shares	31 December 2017 Number of shares
HSBC Middle East Holdings BV	**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) Fair value through other comprehensive income (FVOCI) reserve – financial investments

FVOCI reserve represents fair value changes (net of tax) of financial assets measured at FVOCI.

(c) Available-for-sale fair value reserve

Available-for-sale fair value reserve represents fair value changes (net of tax) in available-for-sale financial assets.

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

The Bank's related parties include the parent, HSBC Group and related entities, key management personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and includes members of the Boards of Directors of the Bank.

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.

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:

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

30 June 2018	**Parent entity RO'000**	**Other related group entities RO'000**	**Directors RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**-**	**-**	**388**	**125,986**	**126,374**
Current, deposit and other accounts	**-**	**2,536**	**329**	**17,542**	**20,407**
Letters of credit and guarantees	**-**	**104,348**	**-**	**7,710**	**112,058**
Acceptances	**-**	**-**	**-**	**819**	**819**
Due from banks	**-**	**52,427**	**-**	**-**	**52,427**
Due to banks	**-**	**23,736**	**-**	**-**	**23,736**
For the period ended 30 June 2018					
Net fee income	**-**	**(195)**	**-**	**-**	**(195)**
Other operating expenses	**-**	**(6,386)**	**(10)**	**(467)**	**(6,863)**

30 June 2017	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
Loans and advances	-	-	-	91,919	91,919
Current, deposit and other accounts	-	1,970	124	16,782	18,876
Letters of credit and guarantees	-	72,162	-	6,065	78,227
Acceptances	-	-	-	2,064	2,064
Due from banks	-	27,154	-	-	27,154
Due to banks	-	22,389	-	-	22,389
For the period ended 30 June 2017					
Net fee income	-	23	-	-	23
Other operating expenses	-	(4,601)	(10)	(42)	(4,653)
Purchase of property and equipment	-	-	-	(57)	(57)

31 December 2017	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
Loans and advances	-	-	400	175,889	176,289
Current, deposit and other accounts	-	2,255	256	24,565	27,076
Letters of credit and guarantees	-	115,179	-	5,416	120,595
Acceptances	-	-	-	1,002	1,002
Due from banks	-	14,411	-	-	14,411
Due to banks	-	12,124	-	-	12,124

Related party loans and advances bear interest at rates between 1.45% p.a. and 6.5% p.a. (30 June 2017: between 1.45% p.a. and 6.5% p.a.). Related party deposits bear interest at rates between 0.2% p.a. and 1.25% p.a. (30 June 2017: between 0.20% p.a. and 1.25% p.a.).

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

Compensation of key management personnel

	Six month period ended 30 June 2018 RO'000	Six month period ended 30 June 2017 RO'000
Wages, salaries and other short term benefits	**761**	678
Post-employment benefits	**43**	53
	804	731

26 Operating segments

The factors used to identify the Bank's reporting segments are discussed in the financial statements for the year ended 31 December 2017.

30 June 2018	**CMB RO'000**	**RBWM RO'000**	**GB&M RO'000**	**Corporate centre RO'000**	**Total RO'000**
Net interest income					
- External	**4,219**	**13,646**	**8,475**	**3,478**	**29,818**
- Internal	**5,103**	**1,664**	**(2,470)**	**(4,297)**	**-**
	9,322	**15,310**	**6,005**	**(819)**	**29,818**
Net fee income	**2,270**	**1,910**	**2,551**	**(86)**	**6,645**
Net trading income	**787**	**661**	**1,840**	**2,595**	**5,883**
Changes in fair value of financial investments measured at fair value through profit and loss	**-**	**-**	**-**	**(201)**	**(201)**
Other operating income	**140**	**(32)**	**251**	**254**	**613**
Total operating income	**12,519**	**17,849**	**10,647**	**1,743**	**42,758**
Change in expected credit losses and other credit impairment charges	**787**	**(2,614)**	**2,750**	**70**	**993**
Net operating income	**13,306**	**15,235**	**13,397**	**1,813**	**43,751**
Total operating expenses	**(5,741)**	**(16,148)**	**(3,080)**	**(259)**	**(25,228)**
Profit before tax	**7,565**	**(913)**	**10,317**	**1,554**	**18,523**
Reportable segment assets	**499,905**	**491,500**	**492,007**	**965,063**	**2,448,475**
Reportable segment liabilities	**1,027,865**	**655,356**	**379,896**	**62,459**	**2,125,576**

30 June 2017	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	Total RO'000
Net interest income					
- External	4,168	13,691	5,579	2,342	25,780
- Internal	3,173	1,154	(1,324)	(3,003)	-
	7,341	14,845	4,255	(661)	25,780
Net fee income	1,777	1,805	1,580	(85)	5,077
Net trading income	706	635	1,847	1,542	4,730
Other operating income	24	68	54	49	195
Total operating income	9,848	17,353	7,736	845	35,782
Loan impairment (charges) and other credit risk provisions - net of recoveries	(1,078)	(1,647)	1,389	-	(1,336)
Net operating income	8,770	15,706	9,125	845	34,446
Total operating expenses	(5,504)	(15,851)	(2,857)	(353)	(24,565)
Profit before tax	3,266	(145)	6,268	492	9,881
Reportable segment assets	469,664	476,072	408,873	1,016,467	2,371,076
Reportable segment liabilities	1,006,213	681,300	319,625	51,887	2,059,025

27 Capital adequacy ratio

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. The banks are required to maintain minimum capital adequacy ratio of 12.875% including capital conservation buffer for 2018 (30 June 2017 and 31 December 2017: 13.25%) in accordance with CBO stipulated guidelines.

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
CET 1 / Tier 1 capital	**305,921**	295,046	305,921
Tier 2 capital (T2)	**18,307**	18,640	18,307
Total regulatory capital	**324,228**	313,686	324,228
Risk-weighted assets	**1,733,000**	1,854,689	1,916,095
CET 1 / Tier 1 capital ratio	**17.65%**	15.91%	15.97%
Total capital ratio	**18.71%**	16.91%	16.92%

28 Cash and cash equivalents

	30 June 2018 RO'000	30 June 2017 RO'000	31 December 2017 RO'000
Unaudited interim condensed statement of financial position comprises:			
Cash and balances with central bank*	**122,323**	222,293	223,806
Due from banks	**350,416**	125,208	40,363
Due to banks	**(38,293)**	(52,827)	(35,958)
Total	**434,446**	294,674	228,211

*Cash and balances with central bank amount is including the ECL allowances of RO0.2 M (30 June 2017 : N/A, 31 December 2017: N/A).

29 Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) is guided by the CBO through circular BM 1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). Liquidity coverage ratio is calculated on monthly intervals and reported to the CBO. The Banks are required to maintain minimum liquidity coverage ratio of 90% for 2018 (for 30 June 2017: 80%) in accordance with CBO stipulated guidelines.

Liquidity coverage ratio disclosure for the period ended 30 June 2018:

		30 June 2018		30 June 2017	
		Total Unweighted Value (average*) RO'000	**Total Weighted Value (average*) RO'000**	Total Unweighted Value (average**) RO'000	Total Weighted Value (average**) RO'000
	High quality liquid assets				
1	Total High quality liquid assets (HQLA)		**639,459**		802,771
	Cash outflows				
2	Retail deposits and deposits from small business customers, of which:	**625,984**	**47,454**	669,808	50,807
3	- Stable deposits	**302,885**	**15,144**	323,478	16,174
4	- Less stable deposits	**323,099**	**31,310**	346,330	34,633
5	Unsecured wholesale funding, of which:	**1,439,874**	**610,091**	1,368,530	565,404
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	**-**	**-**	-	-
7	- Non-operational deposits (all counterparties)	**1,439,874**	**610,091**	1,368,530	565,404
8	- Unsecured debt	**-**	**-**	-	-
9	Secured wholesale funding	**-**	**-**	-	-
10	Additional requirements, of which	**39,399**	**3,702**	76,002	7,321
11	- Outflows related to derivative exposures and other collateral requirements	**-**	**-**	-	-
12	- Outflows related to loss of funding on debt products	**-**	**-**	-	-
13	- Credit and liquidity facilities	**39,399**	**3,702**	76,002	7,321
14	Other contractual funding obligations	**-**	**-**	-	-
15	Other contingent funding obligations	**528,588**	**26,429**	992,105	49,605
16	**Total cash outflows (2+5+10+15)**		**687,676**		673,137
	Cash inflows				
17	Secured lending (e.g. reverse repos)	-	**-**	-	-
18	Inflows from fully performing exposures	**232,279**	**209,625**	147,510	116,554
19	Other cash inflows	**-**	**-**	-	-
20	**Total cash inflows (17+18+19)**	**232,279**	**209,625**	147,510	116,554
			Total Adjusted Value		Total Adjusted Value
21	**Total HQLA**		**639,459**		802,771
22	**Total net cash outflows (16-20)**		**478,051**		556,583
23	**Liquidity coverage ratio (21/22)**		**134%**		144%

*simple average of daily observations over the last three month (Apr – Jun 2018 and Apr – Jun 2017).

30 Corresponding figures

Certain corresponding figures for 2017 have been reclassified in order to conform to the presentation for the current period. Such reclassifications have not resulted in change in prior period reported profit and equity.

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