

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 September 2018



Interim Condensed Financial Information – 30 September 2018

Contents	Page
Board of Directors' report	3-4
Summary of unaudited results	5
Review report of the independent auditors	6
Unaudited interim condensed statement of comprehensive income	7
Unaudited interim condensed statement of financial position	8
Unaudited interim condensed statement of changes in equity	9
Unaudited interim condensed statement of cash flows	10
Notes to the unaudited interim condensed financial information	11-43

Presentation of information

This document comprises the Interim Condensed Financial Information – 30 September 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 nine months ended 30 September 2018

Dear Shareholders,

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

We are pleased to announce that we have had another successful Quarter with an 82.5% increase in year to date net profit. These encouraging results also come on a special occasion, as HSBC Bank Oman celebrated its 70th anniversary in Oman last week in an event that was attended by a number of dignitaries in the country as well as by many of our premier and corporate customers.

Performance Summary

Our year to date performance shows an 82.5% increase in net profit to RO25.0 M compared with RO13.7 M for the same period in 2017, driven primarily by a 15.9% growth in revenues.

Net interest income grew by 13.1% to RO45.0 M for the period ended 30 September 2018 due to an 8.1% growth in customer loans and advances as well as due to the rising yield on our financial investments using our strong surplus liquidity. Net fee income increased by 9.8% to RO9.0 M for the nine months period ended 30 September 2018 on the back of higher structuring and advisory fees for assisting our Government-related and wholesale clients.

Net Trading income increased by 34.7% to RO9.7 M, an increase of RO2.5 M over the same period last year owing to higher trading volumes from our clients' business flows.

A net release of RO3.0 M has been reported in the Bank's Expected Credit Losses and other credit impairment charges compared with a net charge of RO2.6 M for the same period last year. The Bank saw a release of RO6.0 M in the Wholesale portfolio offset by a RO3.0 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).

Operating expenses rose by 1.9% to RO37.0 M compared with RO36.3 M for the same period in 2017 owing to higher IT-related expenses.

As mentioned, loans and advances to customers grew by 8.1% to RO1,439.7 M compared with RO1,332.4 M as at 30 September 2017, growth largely being in the Bank's wholesale loans and advances.

Customer deposits decreased by 3.1% to RO1,942.1 M compared with RO2,003.4 M as at 30 September 2017. Our liquidity remains strong with an Advances to Deposit ratio (ADR) of 74.1% at the end of September 2018.

HBON's Capital Adequacy Ratio (CAR) stood at 18.50% as at 30 September 2018 compared with 15.90% as at 30 September 2017.

Delivering the best customer experience

In Retail Banking and Wealth Management, we launched a campaign to drive acquisition of new accounts amongst our Premier and Advance customers.

We have also strengthened our Credit card product by enhancing our credit policies. We have also improved our Advance credit card proposition by increasing the number of airport lounges our Advance Mastercard holders can access from 10 to 25 lounges around the world. In addition, we have relaunched our Entertainer App with additional attractive offers for our customers including travel bookings. We have also revised our Term Deposit rates in 3Q, making them more competitive and attractive.

In Wholesale Banking, the strength of our Payments and Cash Management solutions was recognized by being ranked as the Best Domestic Cash Manager for Corporates in Oman in the Euromoney Cash Management Survey 2018 for the seventh year in a row.

During the Quarter, we hosted an HSBC Digital Summit for our corporate customers. The objective of the summit was to position Digital front-of-mind for clients and to associate HSBC Bank Oman as a leading partner for them on their digital journey. The event included several presentations, panel discussions and demos of our e-platforms, including HSBCnet which allow clients to securely manage payments, receivables and cash flow using real-time transaction information.

Prior to the Digital Summit we also held a digital workshop for all of our wholesale banking Relationship Managers with the objective of ensuring that they are at the forefront of helping our clients as they plan digital adoption in their businesses.

Investing in our people and the community

During the Quarter, and as part of our commitment to support the Omanization agenda, 43 Omani graduates have joined the Bank under the government's national requirement drive. 9 additional candidates are at the on-boarding stage and 3 more candidates are in our screening process at various locations in Oman.

As part of our social responsibility and our commitment to contribute to the communities where we operate, we signed an MOU with the Ministry of Regional Municipalities and Water Resources, based on which HSBC Bank Oman will support repairing a number of Falaj around the Sultanate. This project aims to substantially enhance the flow of water by developing existing underground supplies, while also encouraging agricultural production in cultivated areas that are experiencing excessively dry weather conditions.

This project will also give an opportunity to the Bank Employees to volunteer in the repairing work that will take place, demonstrating the Bank's continuous emphasis on fostering a volunteering culture among employees.

Conclusion

In conclusion, and as we celebrate our 70th anniversary in Oman, I would like to express my thanks and gratitude to all our customers, employees and all of our other stakeholders who have supported us during our journey in the country since 1948 until today. Our thanks and appreciation are extended, as always, to the Central Bank of Oman and the Capital Market Authority for their continuous 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 throughout most of our 70 years in Oman, and we affirm our full support to the Omani government at all times.

Sir Sherard Cowper-Coles
Chairman

Summary of unaudited results for the nine month period ended 30 September 2018

	30 September 2018	30 September 2017	Change
	RO'000	RO'000	(%)
Loans and advances to customers - net	1,439,662	1,332,400	8.1%
Customer deposits	1,942,093	2,003,361	-3.1%
Net assets	333,802	317,855	5.0%
* Net assets per share	0.167	0.159	5.0%
	Nine month	Nine month	
	period ended	period ended	
	30 September 2018	30 September 2017	Change
	RO'000	RO'000	(%)
Net interest income	45,016	39,781	13.2%
Profit for the period	24,991	13,659	83.0%
** Earnings per share (annualised)	0.017	0.009	88.9%
***Capital adequacy ratio (CAR)	18.50%	15.90%	2.6%

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

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

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



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 September 2018, and the related interim condensed statement of comprehensive income for the three month and nine month periods then ended, and interim condensed statements of changes in equity and cash flows for the nine 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 condensed 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. 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 condensed interim 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").

17 October 2018
Muscat, Sultanate of Oman



Unaudited interim condensed statement of comprehensive income for the three and nine month periods ended 30 September 2018

		Three month period ended 30 September 2018 RO'000	Three month period ended 30 September 2017 RO'000	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Interest income	5	17,925	16,281	52,430	46,506
Interest expense	6	(2,727)	(2,280)	(7,414)	(6,725)
Net interest income		15,198	14,001	45,016	39,781
Fee income		3,145	3,864	11,379	10,215
Fee expense		(798)	(725)	(2,387)	(1,999)
Net fee income		2,347	3,139	8,992	8,216
Net trading income		3,787	2,432	9,670	7,162
Changes in fair value of financial investments measured at fair value through profit and loss		(86)	N/A	(287)	N/A
Dividend income		-	-	128	111
Other operating income - net	7	105	(46)	590	38
Net operating income before loan impairment charges and other credit risk provisions		21,351	19,526	64,109	55,308
Change in expected credit losses and other credit impairment charges	8	2,032	N/A	3,025	N/A
Loan impairment charges and other credit risk provisions - net of recoveries	8	N/A	(1,274)	N/A	(2,610)
Net operating income		23,383	18,252	67,134	52,698
Operating expenses	9	(11,212)	(11,185)	(35,297)	(34,607)
Amortisation of intangible assets	10	(571)	(571)	(1,714)	(1,714)
Total operating expenses		(11,783)	(11,756)	(37,011)	(36,321)
Profit before tax		11,600	6,496	30,123	16,377
Tax expense		(1,978)	(1,054)	(5,132)	(2,718)
Profit for the period		9,622	5,442	24,991	13,659
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	425	N/A	507
-Fair value gain reclassified to profit or loss on disposal		N/A	-	N/A	(37)
-Income tax		N/A	(63)	N/A	18
		-	362	-	488
Debt instruments at fair value through other comprehensive income					
-Fair value gain		1,559	N/A	1,477	N/A
-Expected credit losses recognised in income statement		(44)	N/A	(229)	N/A
-Income tax		(234)	N/A	(222)	N/A
		1,281	-	1,026	-
Other comprehensive income for the period - net of tax		1,281	362	1,026	488
Total comprehensive income for the period		10,903	5,804	26,017	14,147
Earnings per share – basic and diluted	11				
-for the period (RO)		0.005	0.003	0.012	0.007
-annualised (RO)		0.019	0.011	0.017	0.009

The accompanying notes on pages 11 to 43 form an integral part of this interim condensed financial information.

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

		At 30 September 2018	At 30 September 2017	Audited At 31 December 2017
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		78,225	131,613	223,806
Due from banks		243,447	51,556	40,363
Loans and advances to customers - net	12	1,439,662	1,332,400	1,394,887
Financial investments	13	528,343	839,615	614,921
Other assets	14	29,463	28,916	28,793
Intangible assets	15	1,525	3,810	3,239
Property and equipment	16	25,515	25,857	26,238
Deferred tax assets		2,063	2,039	1,550
Total assets		2,348,243	2,415,806	2,333,797
Liabilities and equity				
Liabilities				
Due to banks		31,886	49,553	35,958
Deposits from customers	17	1,942,093	2,003,361	1,932,050
Other liabilities	18	34,160	39,474	37,908
Current tax liabilities		6,302	5,563	4,625
Total liabilities		2,014,441	2,097,951	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 (FVOCI) reserve	24(b)	(489)	N/A	N/A
Available-for-sale fair value reserve	24(c)	N/A	(2,241)	(2,166)
Retained earnings		94,381	82,098	85,512
Net equity		333,802	317,855	323,256
Total liabilities and equity		2,348,243	2,415,806	2,333,797
Net assets per share - RO		0.167	0.159	0.162
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		36,442	60,986	63,450
- Guarantees and performance bonds		557,725	343,450	382,152
- Others	19	1,213,812	985,947	838,934
		1,807,979	1,390,383	1,284,536

The accompanying notes on pages 11 to 43 form an integral part of this interim condensed financial information.

The interim condensed financial information were authorised for issue on 17 October 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 nine month period ended 30 September 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	-	13,659	13,659
Other comprehensive income for the period						
Net movement in fair value of available-for-sale investments (net of tax)	-	-	N/A	488	-	488
Total other comprehensive income for the period	-	-	N/A	488	-	488
Total comprehensive income for the period	-	-	N/A	488	13,659	14,147
Transaction with shareholders, recorded directly in equity						
Dividend for 2016	-	-	N/A	-	(10,002)	(10,002)
At 30 September 2017	200,031	37,967	N/A	(2,241)	82,098	317,855
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	24,991	24,991
Other comprehensive income for the period						
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	1,026	N/A	-	1,026
Total other comprehensive income for the period	-	-	1,026	N/A	-	1,026
Total comprehensive income for the period	-	-	1,026	N/A	24,991	26,017
Transaction with shareholders, recorded directly in equity						
Dividend for 2017	-	-	-	N/A	(11,402)	(11,402)
At 30 September 2018	200,031	39,879	(489)	N/A	94,381	333,802

The RO2.2 M of FVOCI reserve at 1 January 2018 represents the IAS39 Available –for –sale fair value reserve as at 31 December 2017.

The accompanying notes on pages 11 to 43 form an integral part of this interim condensed financial information

Unaudited interim condensed statement of cash flows for the nine month period ended 30 September 2018

	Notes	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Cash flows from operating activities			
Profit before tax		30,123	16,377
Adjustments for:			
- Changes in fair value of financial investments measured at fair value through profit and loss		287	-
-Net loss / (gain) on sale of financial investments	7	10	(10)
- Change in expected credit losses and other credit impairment charges	8	(3,025)	N/A
- Loan impairment charges and other credit risk provisions – net of recoveries	8	N/A	2,610
-Depreciation of property and equipment	9	1,198	1,229
-(Gain) / loss on disposal of property and equipment	7	(90)	35
-Amortisation of intangible assets	10	1,714	1,714
-Amortisation of discount on financial investment		(2,377)	(2,142)
-Employer's current service cost, with interest		255	133
-Finance leases charge		44	44
-Effect of currency translation		-	(457)
-Change in operating assets			
Change in loans and advances to customers – net		(43,649)	83,405
Change in other assets		(736)	(5,617)
-Change in operating liabilities			
Change in deposits from customers		10,043	136,706
Change in other liabilities		(7,056)	9,308
-Retirement benefits paid		(107)	(32)
-Tax paid		(3,415)	(3,244)
Net cash (used in) / generated from operating activities		(16,781)	240,059
Cash flows from investing activities			
Purchase of financial investments		(1,716,157)	(2,419,861)
Proceeds from maturity of financial investments		1,806,300	1,996,294
Purchase of property and equipment		(1,315)	(621)
Proceeds from sale of property and equipment		930	4
Net cash generated from / (used in) investing activities		89,758	(424,184)
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		61,575	(194,127)
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	289,786	133,616

The accompanying notes on pages 11 to 43 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.

Notes to the unaudited interim condensed financial information (continued)

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	IAS 39 measurement category	IFRS 9 measurement category	Reclassification					Remeasurement and IFRS 9 expected credit losses	IFRS 9 carrying amount as at 1 January 2018
			IAS 39 carrying amount as at 31 December 2017	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Carrying amount Post reclassification		
			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.

Notes to the unaudited interim condensed financial information (continued)

3 Accounting policies (continued)

Liabilities	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount as at 31 December 2017 RO'000	Reclassification				Remeasurement and IFRS 9 expected credit losses RO'000	IFRS 9 carrying amount as at 1 January 2018 RO'000
				Fair value through profit or loss RO'000	Fair value through other comprehensive income RO'000	Amortised cost RO'000	Carrying amount post reclassification 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 RO'000	Reclassification RO'000	Carrying amount post reclassification RO'000	Remeasurement and IFRS 9 expected credit losses RO'000	IFRS 9 carrying amount as at 1 January 2018 RO'000
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

Notes to the unaudited interim condensed financial information (continued)

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 RO'000	Fair value through profit and loss RO'000	Fair value through other comprehensive income RO'000	Stage 3 RO'000	Stage 1 and 2 RO'000	Total 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

Notes to the unaudited interim condensed financial information (continued)

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 3.28% for the nine month period ended 30 September 2018 (30 September 2017 – 3.00%).

	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Loans and advances to customers	46,313	41,500
Financial investments	4,119	4,006
Due from banks	2,213	674
Others	(215)	326
	52,430	46,506

Notes to the unaudited interim condensed financial information (continued)

6 Interest expense

For the nine month period ended 30 September 2018, the average overall annualised cost of funds was 0.50% (30 September 2017 – 0.45%).

	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Deposits from customers	(7,414)	(6,725)

7 Other operating income – net

	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Gain on derecognition of financial assets measured at amortised cost	429	-
Net (loss) / gain on sale of financial investments	(10)	10
Gain / (loss) on sale of property and equipment	90	(35)
Other income	81	63
	590	38

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

	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Net change in ECL allowances on loans and advances	3,107	N/A
Amounts written off net of recoveries	(1,985)	(2,784)
Net change in ECL / loan impairment charges	1,122	(2,784)
Individually assessed allowance (as per IAS 39)	N/A	(639)
Collectively assessed allowances (as per IAS 39)	N/A	813
Net change in ECL allowance on financial investments	229	N/A
Net change in ECL allowance on other financial instruments and off balance sheet items	1,674	N/A
Change in expected credit losses and other credit impairment charges / loan impairment charges and other credit risk provisions – net of recoveries	3,025	(2,610)

Notes to the unaudited interim condensed financial information (continued)

9 Operating expenses

	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Employee compensation and benefits	(17,215)	(16,905)
General and administrative expenses*	(16,884)	(16,473)
Depreciation of property and equipment	(1,198)	(1,229)
	(35,297)	(34,607)

* General and administrative expenses for the current period include the RO0.9 M of "Mandoos Prize" draw expenses (30 September 2017: RO1.3 M).

10 Amortisation of intangible assets

	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
This represents amortisation of intangible assets as a result of business combination and is accounted for as follows :		
- Core deposits	(1,319)	(1,319)
- Customer relationships	(395)	(395)
	(1,714)	(1,714)

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:

	Nine month period ended 30 September 2018	Nine month period ended 30 September 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)	24,991	13,659	19,116
Earnings per share – basic and diluted (RO)			
- for the period / year	0.012	0.007	0.010
- annualised	0.017	0.009	0.010

Notes to the unaudited interim condensed financial information (continued)

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 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
Overdrafts	67,589	59,441	59,926
Credit cards	27,050	24,627	22,376
Loans	1,210,060	1,090,882	1,163,223
Clean import loans	197,755	202,033	198,030
Bills discounted / purchased	9,596	23,966	21,278
Gross loans and advances	1,512,050	1,400,949	1,464,833
ECL Allowances	(34,778)	N/A	N/A
Provision for loan impairment - specific	N/A	(18,296)	(18,248)
Provision for loan impairment - general*	N/A	(17,791)	(18,289)
Reserved interest	(37,610)	(32,462)	(33,409)
Net loans and advances	1,439,662	1,332,400	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 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
0-5%	1,063,503	977,225	1,039,860
5-7%	337,837	297,195	309,445
7-10%	40,999	56,133	50,872
10-13%	38,486	40,339	38,451
More than 13%	31,225	30,057	26,205
	1,512,050	1,400,949	1,464,833

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

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
0-6 months	439,067	437,223	513,928
6-12 months	14,383	6,523	6,922
1-3 years	187,622	46,107	73,339
3-5 years	151,541	156,441	154,303
More than 5 years	647,049	686,106	646,395
	1,439,662	1,332,400	1,394,887

Notes to the unaudited interim condensed financial information (continued)

12 Loans and advances to customers – net (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
Personal and consumer loans	505,498	492,200	488,559
Corporate and commercial			
Import trade	237,483	254,857	233,842
Construction	66,012	51,206	46,574
Manufacturing	234,927	270,270	235,152
Wholesale and retail trade	71,173	26,870	70,137
Electricity, gas, water, transportation and communication	42,932	44,960	45,306
Services	113,625	86,492	170,543
Mining and quarrying	176,211	114,531	124,723
Others	64,189	59,563	49,997
	1,006,552	908,749	976,274
Total gross loans and advances	1,512,050	1,400,949	1,464,833
ECL Allowances	(34,778)	N/A	N/A
Provision for loan impairment - specific	N/A	(18,296)	(18,248)
Provision for loan impairment - general	N/A	(17,791)	(18,289)
Reserved interest	(37,610)	(32,462)	(33,409)
Net loans and advances	1,439,662	1,332,400	1,394,887
Non-performing loans (NPL)	58,451	56,054	55,269

The movement of ECL allowances on financial instruments for the nine month period ended 30 September 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	(1,337)	1,337	-	-
Transfer from stage 2 to stage 1	3,813	(3,813)	-	-
Transfer to stage 3	-	(2,409)	2,409	-
Transfer from stage 3	-	4,330	(4,330)	-
Net remeasurement of loss allowance	(877)	(2,265)	(1,868)	(5,010)
ECL released due to recoveries	-	-	(287)	(287)
Write-offs	-	-	(211)	(211)
Balance at 30 September 2018	4,472	15,120	16,604	36,196

Notes to the unaudited interim condensed financial information (continued)

12 Loans and advances to customers – net (continued)

The movement on provision for loan impairment for the nine month period ended 30 September 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	2,074	-	2,074
Provisions released / written back	(1,435)	(813)	(2,248)
Written off during the period	(8,851)	-	(8,851)
Balance at 30 September 2017	18,296	17,791	36,087

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

	30 September 2018 RO'000	30 September 2017 RO'000
Balance at the beginning of the period	33,409	37,210
Reserved during the period	5,100	5,799
Released to the statement of comprehensive income	(362)	(497)
Written off during the period	(537)	(10,050)
Balance at the end of the period	37,610	32,462

The estimated fair value of loans and advances is RO1,407.3 M as of 30 September 2018 (30 September 2017 – RO1,298.9 M and 31 December 2017 – RO1,375.4 M).

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

	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss (charged) / released to profit and loss account	(1,924)	3,025	4,949
Provisions required*	32,965	36,196	3,231
Gross NPL ratio (percentage)	3.87%	3.87%	-
Net NPL ratio (percentage)	0.55%	0.29%	(0.26)%

*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.

Notes to the unaudited interim condensed financial information (continued)

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
Standard	Stage 1	912,514	13,029	3,941	9,088	908,573	96
	Stage 2	509,282	5,248	10,416	(5,168)	498,866	448
	Stage 3	70	11	105	(94)	(35)	8
			1,421,866	18,288	14,462	3,826	1,407,403
Special mention	Stage 1	-	-	-	-	-	-
	Stage 2	29,783	1,796	3,729	(1,933)	26,054	76
	Stage 3	1,950	292	270	22	1,680	125
			31,733	2,088	3,999	(1,911)	27,734
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	179	45	88	(43)	91	3
	Stage 3	2,931	733	1,937	(1,204)	994	182
			3,110	778	2,025	(1,247)	1,085
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	220	88	75	13	145	16
			220	88	75	13	145
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	55,121	11,723	14,217	(2,494)	40,904	36,656
			55,121	11,723	14,217	(2,494)	40,904
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,565,614	-	531	(531)	1,565,083	-
	Stage 2	35,361	-	887	(887)	34,474	-
	Stage 3	-	-	-	-	-	-
			1,600,975	-	1,418	(1,418)	1,599,557
Total	Stage 1	2,478,128	13,029	4,472	8,557	2,473,656	96
	Stage 2	574,605	7,089	15,120	(8,031)	569,485	527
	Stage 3	60,292	12,847	16,604	(3,757)	43,688	36,987
	Total	3,113,025	32,965	36,196	(3,231)	3,076,829	37,610

Notes to the unaudited interim condensed financial information (continued)

12 Loans and advances to customers – net (continued)

Restructured loans and advances (as per CBO illustrative disclosure)

Assets classification per CBO Norms	as	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
(1)	(2)	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)	
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	9,906	1,585	1,828	(243)	8,078	47	
	Stage 3	2,020	303	314	(11)	1,706	134	
Sub Total		11,926	1,888	2,142	(254)	9,784	181	
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	26,958	7,000	8,587	(1,587)	18,371	14,933	
	Total	26,958	7,000	8,587	(1,587)	18,371	14,933	
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	9,906	1,585	1,828	(243)	8,078	47	
	Stage 3	28,978	7,303	8,901	(1,598)	20,077	15,067	
	Total	38,884	8,888	10,729	(1,841)	28,155	15,114	

HSBC Bank Oman S.A.O.G.

Notes to the unaudited interim condensed financial information (continued)

13 Financial investments

Financial investments details are provided as follows:

	Fair value 30 September 2018 RO'000	Fair value 30 September 2017 RO'000	Fair value 31 December 2017 RO'000	Carrying value* 30 September 2018 RO'000	Carrying value 30 September 2017 RO'000	Carrying value 31 December 2017 RO'000	Cost 30 September 2018 RO'000	Cost 30 September 2017 RO'000	Cost 31 December 2017 RO'000
Marketable securities – MSM									
Government bonds	75,885	68,050	62,036	75,885	68,050	62,036	76,579	70,907	64,911
Unquoted and other investments									
Treasury bills	449,869	768,343	549,715	449,869	768,343	549,715	449,860	767,788	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	2,322	2,955	2,903	2,322	2,955	2,903	3,003	3,286	3,289
	452,458	771,565	552,885	452,458	771,565	552,885	453,130	771,344	552,558
Total	528,343	839,615	614,921	528,343	839,615	614,921	529,709	842,251	617,469

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

Notes to the unaudited interim condensed financial information (continued)

13 Financial investments (continued)

Carrying amount of financial investments

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	449,869	N/A	N/A
Government bonds	75,885	N/A	N/A
Other investments	250	N/A	N/A
	526,004	N/A	N/A
Financial investments measured at fair value through profit or loss			
Equity investments	2,339	N/A	N/A
Available for sale financial investments			
Treasury bills	N/A	768,343	549,715
Government bonds	N/A	68,050	62,036
Equity and other investments	N/A	3,222	3,170
	N/A	839,615	614,921
	528,343	839,615	614,921

14 Other assets

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
Acceptances	17,218	16,116	19,140
ECL on acceptances	(47)	N/A	N/A
Acceptances (net of ECL)	17,171	16,116	19,140
Derivatives - positive mark-to-market	9,613	7,844	6,378
Prepayments and accrued income	1,227	701	779
Others	1,452	4,255	2,496
	29,463	28,916	28,793

15 Intangible assets

	30 September 2018 RO'000	30 September 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	(14,472)	(12,187)	(12,758)
	1,525	3,810	3,239

16 Property and equipment

RO1.3 M of property and equipment were added during the period (30 September 2017: RO0.6 M).
Property and equipment disposed of during the period was RO3.1 M (30 September 2017: RO0.02 M).

Notes to the unaudited interim condensed financial information (continued)

17 Deposits from customers

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
Deposits details are as follows:			
Current and call	964,059	1,028,789	951,159
Savings	410,378	448,696	437,849
Time deposits	565,256	523,521	540,845
Others	2,400	2,355	2,197
	1,942,093	2,003,361	1,932,050

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

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
0-6 months	789,965	752,457	689,616
6-12 months	253,365	266,503	286,904
1-3 years	230,256	435,382	392,012
3-5 years	208,515	140,375	157,542
Over 5 years	459,992	408,644	405,976
	1,942,093	2,003,361	1,932,050

The interest rate bands of deposits are as follows:

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
0-2%	1,722,711	1,797,254	1,724,687
2-4%	219,382	206,107	207,363
	1,942,093	2,003,361	1,932,050

18 Other liabilities

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
Derivatives – negative mark-to-market	1,275	1,741	71
Retirement benefit liability	1,149	856	1,001
Acceptances	17,218	16,116	19,140
Provisions	341	823	473
ECL on off balance sheet exposure and other commitments	989	N/A	N/A
Accruals and deferred income	6,208	6,076	6,492
Obligation under finance lease	276	508	232
Others	6,704	13,354	10,499
	34,160	39,474	37,908

Notes to the unaudited interim condensed financial information (continued)

19 Contingent liabilities, commitments and derivatives

	30 September 2018 RO'000	30 September 2017 RO'000	31 December 2017 RO'000
Undrawn unconditionally cancellable commitments	516,863	602,190	557,339
Undrawn unconditionally non-cancellable commitments	32,719	41,378	44,215
Forward foreign exchange contracts	552,195	265,379	160,380
Interest rate swaps	112,035	77,000	77,000
	1,213,812	985,947	838,934

As at 30 September 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 September 2018			
Assets			
Derivatives	-	9,613	9,613
Financial investments at fair value through other comprehensive income	287,247	238,757	526,004
Financial investments at fair value through profit or loss	-	2,339	2,339
Liabilities			
Derivatives	-	1,275	1,275
Deposits from customers	-	120,470	120,470
At 30 September 2017			
Assets			
Derivatives	-	7,844	7,844
Financial investments: available-for-sale	172,793	667,055	839,348
Liabilities			
Derivatives	-	1,741	1,741
Deposits from customers	-	83,478	83,478
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.

Notes to the unaudited interim condensed financial information (continued)

21 Asset liability mismatch

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

Maturities	30 September 2018			30 September 2017			31 December 2017		
	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	1,231,273	860,430	370,843	1,386,421	845,298	541,123	1,318,713	767,309	551,404
6-12 months	20,676	279,254	(258,578)	17,423	281,659	(264,236)	29,034	306,561	(277,527)
1-3 years	235,358	230,256	5,102	113,837	435,634	(321,797)	128,597	392,268	(263,671)
3-5 years	169,718	208,515	(38,797)	160,791	140,375	20,416	159,371	157,542	1,829
more than 5 years	691,218	769,788	(78,570)	737,334	712,840	24,494	698,082	710,117	(12,035)
	2,348,243	2,348,243	-	2,415,806	2,415,806	-	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 September 2018	RO'000	RO'000
Cash and balances with central bank	78,309	(84)
Due from banks	243,458	(11)
Financial investments at FVOCI	526,004	(94)
Loans and advances to customers		
-RBWM	504,488	(9,290)
-Wholesale	969,951	(25,488)
Other assets*	18,638	(240)
Total gross carrying / nominal amount (net of reserved interest)	2,340,848	(35,217)
Documentary credits, guarantees and performance bonds, loan and other credit related commitments	734,566	(989)
Total nominal amount off balance sheet	734,566	(989)
Total	3,075,414	(36,196)

* Includes only acceptances and accrual and accrued income 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.

Notes to the unaudited interim condensed financial information (continued)

23 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 September 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 September 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 September 2018	30 September 2017	31 December 2017
	Number of shares	Number of shares	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:

Notes to the unaudited interim condensed financial information (continued)

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

	Parent entity	Other related group entities	Directors	Others	Total
30 September 2018	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	385	124,484	124,869
Current, deposit and other accounts	-	3,729	161	21,279	25,169
Letters of credit and guarantees	-	94,600	-	8,927	103,527
Acceptances	-	-	-	1,792	1,792
Due from banks	-	53,970	-	-	53,970
Due to banks	-	23,691	-	-	23,691
For the period ended 30 September 2018					
Net fee income	-	(288)	-	-	(288)
Other operating expenses	-	(9,308)	(16)	(685)	(10,009)
	Parent entity	Other related group entities	Directors	Others	Total
30 September 2017	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	-	87,144	87,144
Current, deposit and other accounts	-	2,117	108	22,893	25,118
Letters of credit and guarantees	-	75,842	-	5,628	81,470
Acceptances	-	-	-	2,194	2,194
Due from banks	-	50,183	-	-	50,183
Due to banks	-	17,793	-	-	17,793
For the period ended 30 September 2018					
Net fee income	-	5	-	-	5
Other operating expenses	-	(7,208)	(12)	(68)	(7,288)
Purchase of property and equipment	-	-	-	(60)	(60)
	Parent entity	Other related group entities	Directors	Others	Total
31 December 2017	RO'000	RO'000	RO'000	RO'000	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 September 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 September 2017: between 0.20% p.a. and 1.25% p.a.).

Notes to the unaudited interim condensed financial information (continued)

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

Compensation of key management personnel

	Nine month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2017 RO'000
Wages, salaries and other short term benefits	1,148	1,017
Post-employment benefits	85	66
	<u>1,233</u>	<u>1,083</u>

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 September 2018				
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	Total RO'000
Net interest income					
- External	6,401	20,610	12,895	5,110	45,016
- Internal	8,103	2,529	(3,548)	(7,084)	-
	<u>14,504</u>	<u>23,139</u>	<u>9,347</u>	<u>(1,974)</u>	<u>45,016</u>
Net fee income	2,902	2,963	3,253	(126)	8,992
Net trading income	1,120	936	2,722	4,892	9,670
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(287)	(287)
Other operating income	115	(75)	226	452	718
Total operating income	<u>18,641</u>	<u>26,963</u>	<u>15,548</u>	<u>2,957</u>	<u>64,109</u>
Change in expected credit losses and other credit impairment charges	2,468	(3,036)	3,404	189	3,025
Net operating income	<u>21,109</u>	<u>23,927</u>	<u>18,952</u>	<u>3,146</u>	<u>67,134</u>
Total operating expenses	<u>(8,793)</u>	<u>(23,262)</u>	<u>(4,586)</u>	<u>(370)</u>	<u>(37,011)</u>
Profit before tax	<u>12,316</u>	<u>665</u>	<u>14,366</u>	<u>2,776</u>	<u>30,123</u>
Reportable segment assets	<u>488,866</u>	<u>511,441</u>	<u>459,812</u>	<u>888,124</u>	<u>2,348,243</u>
Reportable segment liabilities	<u>1,046,428</u>	<u>599,280</u>	<u>314,906</u>	<u>53,827</u>	<u>2,014,441</u>

	30 September 2017				
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	Total RO'000
Net interest income					
- External	6,347	20,855	8,493	4,086	39,781
- Internal	5,027	1,910	(2,021)	(4,916)	-
	<u>11,374</u>	<u>22,765</u>	<u>6,472</u>	<u>(830)</u>	<u>39,781</u>
Net fee income	2,661	2,869	2,815	(129)	8,216
Net trading income	1,030	947	2,719	2,466	7,162
Other operating income	21	60	32	36	149
Total operating income	<u>15,086</u>	<u>26,641</u>	<u>12,038</u>	<u>1,543</u>	<u>55,308</u>
Loan impairment (charges) and other credit risk provisions - net of recoveries	(991)	(3,318)	1,699	-	(2,610)
Net operating income	<u>14,095</u>	<u>23,323</u>	<u>13,737</u>	<u>1,543</u>	<u>52,698</u>
Total operating expenses	<u>(8,283)</u>	<u>(23,155)</u>	<u>(4,291)</u>	<u>(592)</u>	<u>(36,321)</u>
Profit before tax	<u>5,812</u>	<u>168</u>	<u>9,446</u>	<u>951</u>	<u>16,377</u>
Reportable segment assets	<u>492,362</u>	<u>480,840</u>	<u>380,495</u>	<u>1,062,109</u>	<u>2,415,806</u>
Reportable segment liabilities	<u>1,029,461</u>	<u>654,719</u>	<u>361,903</u>	<u>51,868</u>	<u>2,097,951</u>

Notes to the unaudited interim condensed financial information (continued)

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 September 2017 and 31 December 2017: 13.25%) in accordance with CBO stipulated guidelines.

	30 September 2018	30 September 2017	31 December 2017
	RO'000	RO'000	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	1,752,465	1,972,911	1,916,095
CET 1 / Tier 1 capital ratio	17.46%	14.95%	15.97%
Total capital ratio	18.50%	15.90%	16.92%

28 Cash and cash equivalents

	30 September 2018	30 September 2017	31 December 2017
	RO'000	RO'000	RO'000
<i>Unaudited interim condensed statement of financial position comprises:</i>			
Cash and balances with central bank*	78,225	131,613	223,806
Due from banks	243,447	51,556	40,363
Due to banks	(31,886)	(49,553)	(35,958)
Total	289,786	133,616	228,211

*Cash and balances with central bank amount is including the ECL allowances of RO0.1 M (30 September 2017 : N/A, 31 December 2017: N/A).

Notes to the unaudited interim condensed financial information (continued)

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 September 2017: 80%) in accordance with CBO stipulated guidelines.

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

	30 September 2018		30 September 2017	
	Unweighted Value (average*) RO'000	Weighted Value (average*) RO'000	Unweighted Value (average*) RO'000	Weighted Value (average*) RO'000
High quality liquid assets				
1 Total High quality liquid assets (HQLA)		662,652		853,616
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
2 - Stable deposits	603,991	45,248	653,604	49,191
3 - Less stable deposits	303,017	15,151	323,395	16,170
4 Unsecured wholesale funding, of which:				
5 - Operational deposits (all counterparties) and deposits in networks of cooperative banks	974,207	413,009	969,951	403,282
6 - Non-operational deposits (all counterparties)				
7 - Unsecured debt	974,207	413,009	969,951	403,282
8 Secured wholesale funding				
9 Additional requirements, of which				
10 - Outflows related to derivative exposures and other collateral requirements	32,957	3,070	53,098	5,036
11 - Outflows related to loss of funding on debt products				
12 - Credit and liquidity facilities	32,957	3,070	53,098	5,036
13 Other contractual funding obligations				
14 Other contingent funding obligations	585,170	29,259	856,011	42,801
16 Total cash outflows (2+5+10+15)		490,586		500,309
Cash inflows				
17 Secured lending (e.g. reverse repos)				
18 Inflows from fully performing exposures	313,510	276,136	202,218	159,377
19 Other cash inflows				
20 Total cash inflows (17+18+19)	313,510	276,136	202,218	159,377
21 Total HQLA		662,652		853,616
22 Total net cash outflows (16-20)		215,057		340,932
23 Liquidity coverage ratio (21/22)		308%		250%

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

Notes to the unaudited interim condensed financial information (continued)

30 Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio (NSFR) is guided by the CBO through circular BM 1147 (Guidelines on NSFR and NSFR disclosures). NSFR ratio is calculated on monthly intervals and reported to the CBO. The standard for NSFR become effective from 1 January 2018 with a minimum ratio of 100%.

Net Stable Funding Ratio disclosure for the period ended 30 September 2018:

Available Stable funding (ASF) items		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	352,091	-	-	-	352,091
2	Regulatory capital	332,327	-	-	-	332,327
3	Other capital instruments	19,764	-	-	-	19,764
4	Retail deposits and deposits from small business customers	565,003	18,426	11,819	2,771	553,617
5	Stable deposits	301,942	311	200	-	287,331
6	Less stable deposits	263,061	18,115	11,619	2,771	266,286
7	Wholesale funding:	865,315	464,139	24,649	19,257	696,308
8	Operational deposits	29,287	-	-	-	14,644
9	Other wholesale funding	836,028	464,139	24,649	19,257	681,664
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	21,913	19,196	898	-	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	21,913	19,196	898	-	-
14	Total ASF					1,602,016
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)					26,288
16	Deposits held at other financial institutions for operational purposes	6,058	-	-	-	3,029
17	Performing loans and securities:	2,590	695,923	17,245	887,605	1,071,397
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	237,399	-	-	35,610
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	453,032	14,788	790,512	914,383
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	90,225	58,646
22	Performing residential mortgages, of which:	-	5,492	2,457	97,093	60,556
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	5,492	2,457	87,049	56,582

Notes to the unaudited interim condensed financial information (continued)

30 Net Stable Funding Ratio (NSFR) (continued)

24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	2,590	-	-	-	2,202
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	30,357	17,472	-	13,169	62,268
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	8,338	8,338
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	30,357	17,472	1,270	4,831	53,930
32	Off-balance sheet items	-	651,147	112,885	379,716	57,187
33	TOTAL RSF					1,220,169
34	NET STABLE FUNDING RATIO (%)					131

31 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.

HSBC Bank Oman S.A.O.G.

P.O. Box 1727
P.C. 111.
Sultanate of Oman
www.hsbc.co.om