

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

31 March 2019



Interim Condensed Financial Information – 31 March 2019

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Presentation of information

This document comprises the Interim Condensed Financial Information – 31 March 2019 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 three months ended 31 March 2019

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's first Quarter financial results for 2019.

Performance Summary

Our first Quarter performance shows a 0.3% increase in net profit to RO8.13 M compared with RO8.11 M for the same period in 2018, mainly due to 6.7% growth in our revenues and continuing tight cost control.

Net interest income grew by 4.8% to RO15.4 M for the period ended 31 March 2019 compared with RO14.7 M for the same period in 2018, due to rising yield on foreign currency loans and the benefit from investing our surplus liquidity. Net fee income fell 26.3% to RO2.8 M for the period ended 31 March 2019 on the back of the non-repeat of structuring and advisory fees from our wholesale customers in the same period last year.

Net trading income increased by 73.9% to RO4.0 M compared with RO2.3 M for the same period last year through balance sheet optimization and deployment of excess liquidity accompanied with higher FX swap volumes.

A net release of RO0.1 M has been reported for the change in the Bank's Expected Credit Losses (ECLs) and other credit impairment charges compared with a net release of RO1.6 M for the same period last year. This was mainly due to the RO2.7 M favorable movement in wholesale ECLs last year partly offset by the reduction in Retail ECLs by RO1.2 M.

Operating expenses fell 1.6% to RO12.5 M compared with RO12.7 M for the same period in 2018 due to our continuing focus on cost control.

Loans and advances to customers fell by 9.5% to RO1,291.1 M when compared with RO1,427.1 M as at 31 March 2018. The fall is mainly due to the reduction in a small number of large Wholesale Loans.

Although Customer deposits fell by 3.1% to RO1,912.0 M our liquidity remains the strongest in the market with an Advances to Deposit ratio (ADR) of 67.5% at the first Quarter of 2019.

HBON's Capital Adequacy Ratio (CAR) stood at 19.9% as at 31 March 2019 compared with 16.2% as at 31 March 2018. The significant increase arose from retained profits as well as a change in the calculation of certain numbers in the ratio as directed by our Regulators.

Delivering the best customer experience

In Retail Banking and Wealth Management (RBWM), we continued our focus on the premium segments. To support acquisition of "New to Bank" customers, we started the year with a marketing campaign focusing on rewarding new Advance and Premier customers. This campaign helped us improve our credit card acquisition by over 90% when compared to the previous Quarter.

We also launched the new Mandoos savings scheme for 2019, which gives customers the chance to win larger prizes compared to the previous year.

Digital engagement of "New to Bank" RBWM customers increased from 48% at the end of December 2018 to 50% at the end of March 2019.

Within the Wholesale Banking business, we have worked on enhancing our product suite for customers and have introduced new developments in our digital and product offering. This has included being the first bank to launch the Liquidity Management Portal (LMP) as well as Global Disbursements (GD) in Oman.

LMP is a continuously evolving internet platform developed for the needs of Treasury professionals providing visibility of their liquidity, detailed entity and account data as well as artificial intelligence tools to facilitate improved liquidity management. It provides an overview of balance and currency positions across HSBC and third party bank accounts, and it works with a Single Sign On via HSBCnet.

GD simplifies cross-border payments with single window access and a centralized approach, reducing the complexity and cost associated with making cross-border payments to multiple beneficiaries in different countries and currencies.

Investing in our people and the community

We continued to invest in staff training programmes at the Bank, delivering 1,247 Learner Man-days during the Quarter in classrooms as well as via e-learning sessions.

A new Line Manager Development Programme was launched during the Quarter, which is a 6-month learning and development journey that sets the minimum standards required for line management at HSBC. The Programme offers the necessary framework, tools and learning resources to empower learners to drive their own progress. As part of the programme, staff can also pursue an HSBC sponsored external accreditation by the Institute of Leadership Management, UK.

Under Corporate Sustainability, we signed a cooperation agreement with Sharakah (Fund for Development of Youth Projects) to assess and provide support for sustainability to 10 Small and Medium Enterprises in Oman. The programme aims at evaluating the performance and the sustainability plans of the selected SMEs and draw a plan for improvement over a period of six months. This partnership with Sharakah underscores HSBC Bank Oman's strategic commitment to supporting sustainable growth through sustainable finance, entrepreneurship and the development of future skills.

Conclusion

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

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

Sir Sherard Cowper-Coles
Chairman

Summary of unaudited results for the three month period ended 31 March 2019

	31 March 2019 RO'000	31 March 2018 RO'000	Change (%)
Loans and advances to customers - net	1,291,143	1,427,125	-9.5%
Customer deposits	1,912,041	1,972,637	-3.1%
Net assets	329,947	315,240	4.7%
* Net assets per share	0.165	0.158	4.4%
	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000	Change (%)
Net interest income	15,444	14,739	4.8%
Profit for the period	8,128	8,105	0.3%
** Earnings per share (annualised)	0.016	0.016	0.0%
***Capital adequacy ratio (CAR)	19.91%	16.20%	3.71%

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

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

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

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 (the Bank)** as of 31 March 2019, and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the three months 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 these interim condensed financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting and the minimum disclosure requirements issued by the Capital Market Authority ("CMA"). Our responsibility is to express a conclusion on these interim condensed financial information based on our review.

Scope of review

We conducted our review in accordance with 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 are not prepared, in all material respects, in accordance with International Accounting Standard 34 - Interim Financial Reporting and the minimum disclosure requirements issued by the Capital Market Authority ("CMA").

Deloitte - Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
30 April 2019



Unaudited interim condensed statement of comprehensive income for the three month period ended 31 March 2019

	Notes	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
Interest income	3	18,321	17,050
Interest expense	4	(2,877)	(2,311)
Net interest income		15,444	14,739
Fee income		3,910	4,577
Fee expense		(1,087)	(765)
Net fee income		2,823	3,812
Net trading income		3,986	2,287
Changes in fair value of financial investments measured at fair value through profit and loss		(106)	(36)
Other operating income - net		26	25
Net operating income before loan impairment charges and other credit risk provisions		22,173	20,827
Change in expected credit losses and other credit impairment charges	5	85	1,600
Net operating income		22,258	22,427
Employee compensation and benefits		(5,799)	(5,764)
General and administrative expenses	6	(5,490)	(5,943)
Depreciation of property and equipment		(618)	(399)
Amortisation of intangible assets	7	(571)	(571)
Total operating expenses		(12,478)	(12,677)
Profit before tax		9,780	9,750
Tax expense		(1,652)	(1,645)
Profit for the period		8,128	8,105
Other comprehensive income / (loss)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Debt instruments at fair value through other comprehensive income			
-Fair value loss		(53)	(566)
-Expected credit losses recognised in income statement		26	(169)
-Income tax		8	85
Other comprehensive loss for the period - net of tax		(19)	(650)
Total comprehensive income for the period		8,109	7,455
Earnings per share – basic and diluted	8		
-for the period (RO)		0.004	0.004
-annualised (RO)		0.016	0.016

The accompanying notes form an integral part of this interim condensed financial information.

Unaudited interim condensed statement of financial position as at 31 March 2019

		At 31 March 2019	At 31 March 2018	Audited At 31 December 2018
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		181,963	173,515	270,574
Due from banks		189,363	162,403	132,792
Loans and advances to customers - net	9	1,291,143	1,427,125	1,389,559
Financial investments - FVOCI	10	621,233	583,317	498,986
Financial investments - FVTPL	10	2,233	2,884	2,340
Other assets	11	41,250	30,796	37,488
Intangible assets	12	383	2,668	954
Property and equipment	13	25,561	26,059	25,521
Deferred tax assets		1,891	2,429	2,404
Total assets		2,355,020	2,411,196	2,360,618
Liabilities and equity				
Liabilities				
Due to banks		36,910	74,525	37,778
Deposits from customers	14	1,912,041	1,972,637	1,926,125
Other liabilities	15	72,829	45,916	48,095
Current tax liabilities		3,293	2,878	8,179
Total liabilities		2,025,073	2,095,956	2,020,177
Equity				
Share capital	20	200,031	200,031	200,031
Legal reserve	21(a)	43,016	39,879	43,016
Fair value through other comprehensive income (FVOCI) reserve	21(b)	(209)	(2,165)	(190)
Retained earnings		87,109	77,495	97,584
Net equity		329,947	315,240	340,441
Total liabilities and equity		2,355,020	2,411,196	2,360,618
Net assets per share - RO		0.165	0.158	0.170
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		65,822	85,828	47,845
- Guarantees and performance bonds		533,611	317,251	525,074
- Others	16	1,372,478	1,025,390	1,228,767
		1,971,911	1,428,469	1,801,686

The accompanying notes form an integral part of this interim condensed financial information.

The interim condensed financial information were authorised for issue on 29 April 2019 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 three month period ended 31 March 2019

	Share capital RO'000	Legal reserve RO'000	FVOCI reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2018	200,031	39,879	(2,166)	85,512	323,256
Changes in initial application of IFRS 9	-	-	651	(4,720)	(4,069)
Restated balances at 1 January 2018	200,031	39,879	(1,515)	80,792	319,187
Total comprehensive income for the period					
Profit for the period	-	-	-	8,105	8,105
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(650)	-	(650)
Total other comprehensive loss for the period	-	-	(650)	-	(650)
Total comprehensive (loss) / income for the period	-	-	(650)	8,105	7,455
Transaction with shareholders, recorded directly in equity					
Dividend for 2017	-	-	-	(11,402)	(11,402)
At 31 March 2018	200,031	39,879	(2,165)	77,495	315,240
At 1 January 2019	200,031	43,016	(190)	97,584	340,441
Total comprehensive income for the period					
Profit for the period	-	-	-	8,128	8,128
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(19)	-	(19)
Total other comprehensive loss for the period	-	-	(19)	-	(19)
Total comprehensive income for the period	-	-	(19)	8,128	8,109
Transaction with shareholders, recorded directly in equity					
Dividend for 2018	-	-	-	(18,603)	(18,603)
At 31 March 2019	200,031	43,016	(209)	87,109	329,947

The accompanying notes form an integral part of this interim condensed financial information

**Unaudited interim condensed statement of cash flows for the three month period ended
31 March 2019**

	Notes	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
Cash flows from operating activities			
Profit before tax		9,780	9,750
Adjustments for:			
- non-cash items included in profit before tax	25(a)	122	(2,197)
-Change in operating assets	25(b)	93,164	(34,547)
-Change in operating liabilities	25(c)	(6,637)	34,037
-Tax paid		(6,017)	(3,411)
- Retirement benefits paid		(38)	(31)
Net cash generated from operating activities		90,374	3,601
Cash flows from investing activities			
Purchase of financial investments		(761,055)	(570,224)
Proceeds from maturity of financial investments		639,927	600,225
Purchase of property and equipment	13	(418)	(220)
Proceeds from sale of property and equipment	13	-	-
Net cash generated (used in) / from investing activities		(121,546)	29,581
Net change in cash and cash equivalents		(31,172)	33,182
Cash and cash equivalents at the beginning of the period		365,588	228,211
Cash and cash equivalents at the end of the period	25(d)	334,416	261,393

The accompanying notes 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 and accounting policies

2.1 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 2018 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 the interim condensed financial information in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgment is necessarily applied are those which relate to the impairment financial assets at amortised cost and the valuation of financial instruments.

Notes to the unaudited interim condensed financial information (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 2018.

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, except for IFRS 16 'Leases' are expected to have a significant effect on the interim condensed financial information of the Bank.

(f) Segment analysis

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. The Executive Committee ('EXCO') is the chief operating decision maker which operates as a managing committee under the authority of the Board and review the operating segment results, make decisions about resources allocation and assess the segment performance.

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') customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally. CMB support customers with tailored financial products and services to allow them to operate efficiently and grow. Services provided include working capital, term loans, payment services and international trade facilitation, as well as expertise in access to financial markets.
- 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 comprises Central Treasury, including Balance Sheet Management ('BSM') and central stewardship costs that support our businesses.

2.2 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 2018, except for IFRS 16 'Leases' which was adopted from 1 January 2019.

Lease accounting

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to that in which finance leases were accounted for under IAS 17 'Leases'. Lessees recognise a 'right of use' asset and a corresponding financial liability on the statement of financial position. The asset are amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The Bank applied the IFRS 16 standard using a modified retrospective approach and therefore comparatives are not restated.

Initial recognition and measurement

The Bank initially measures the right-of-use asset at cost; and the lease liability at the present value of the future lease payments. The amount is discounted using the interest rate implicit in the lease if this can be readily determined; otherwise, the incremental borrowing rate. The commencement date is the date on which a lessor makes an underlying asset available for use. After initial recognition, the Bank measures the right-of-use asset at cost less accumulated depreciation and accumulated impairment losses.

After initial recognition, the Bank measures the lease liability by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Interest on the lease liability is the amount that produces a constant periodic rate of the interest on the remaining balance of the lease liability. The periodic rate of interest is the rate used to discount the lease payments to calculate the lease liability.

Presentation

On the statement of financial position,
the right-of-use assets are included under other assets (note 11).
lease liability is included in 'Other liabilities' (note 15)

In the Statement of comprehensive income,
the depreciation charge of the right-of-use assets is included in 'Depreciation of property and equipment'. Interest on lease liabilities are included in interest expense.

Notes to the unaudited interim condensed financial information (continued)

3 Interest income

Interest bearing assets earned interest at an overall annualised rate of 3.55% for the three month period ended 31 March 2019 (31 March 2018 – 3.00%).

	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
Loans and advances to customers	15,578	14,610
Financial investments	1,354	2,207
Due from banks	1,389	226
Others	-	7
	18,321	17,050

4 Interest expense

For the three month period ended 31 March 2019, the average overall annualised cost of funds was 0.59% (31 March 2018 – 0.45%).

	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
Deposits from customers	(2,792)	(2,304)
Others	(85)	(7)
	(2,877)	(2,311)

5 Change in expected credit losses and other credit impairment charges - net

	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
- loans and advances to customer	263	451
- due from banks	7	(2)
- loan commitment and guarantees	(202)	930
- other financial assets	43	52
- financial investments at FVOCI	(26)	169
	85	1,600

Notes to the unaudited interim condensed financial information (continued)

6 General and administrative expenses

	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
Marketing and advertising*	(426)	(586)
Premises and equipment	(746)	(871)
Communications	(148)	(142)
Insurance	(257)	(276)
Other administrative expense	(3,913)	(4,068)
	(5,490)	(5,943)

*Marketing and advertising expenses for the current period include the RO 0.3 M of "Mandoos Prize" draw expenses (31 March 2018: RO 0.3 M).

7 Amortisation of intangible assets

	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
This represents amortisation of intangible assets as a result of business combination and is accounted for as follows :		
- Core deposits	(440)	(440)
- Customer relationships	(131)	(131)
	(571)	(571)

8 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:

	Three month period ended 31 March 2019	Three month period ended 31 March 2018	Year ended 31 December 2018
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)	8,128	8,105	31,366
Earnings per share – basic and diluted (RO)			
- for the period / year	0.004	0.004	0.016
- annualised	0.016	0.016	0.016

Notes to the unaudited interim condensed financial information (continued)

9 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.

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
Overdrafts	75,895	62,280	66,181
Credit cards	28,583	26,858	28,631
Loans	1,112,066	1,057,837	1,165,957
Clean import loans	131,088	325,645	191,527
Bills discounted / purchased	18,414	26,357	11,657
Gross loans and advances	1,366,046	1,498,977	1,463,953
ECL Allowances	(35,182)	(37,180)	(35,502)
Reserved interest*	(39,721)	(34,672)	(38,892)
Net loans and advances	1,291,143	1,427,125	1,389,559

* Reserved interest forms part of specific provision for the purpose of IFRS

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

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
0-5%	872,525	1,080,023	1,038,869
5-7%	407,461	302,668	335,924
7-10%	38,301	47,074	41,021
10-13%	15,257	38,603	15,506
More than 13%	32,502	30,609	32,633
	1,366,046	1,498,977	1,463,953

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

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
0-6 months	336,762	534,655	419,694
6-12 months	18,274	4,123	16,734
1-3 years	52,617	75,748	63,461
3-5 years	243,379	180,024	252,634
More than 5 years	640,111	632,575	637,036
	1,291,143	1,427,125	1,389,559

HSBC Bank Oman S.A.O.G.

Notes to the unaudited interim condensed financial information (continued)

Reconciliation / movement of allowance for ECL / loan impairment and reserved interest:

The following disclosures provides a reconciliation of the Bank's gross carrying/nominal amount and allowances for loans and advances, due from banks, loan commitments and guarantees.

	Non credit - impairment		Stage 2		Credit impairment		Total	
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2019	1,709,789	4,097	530,547	13,564	66,145	18,993	2,306,481	36,654
-Transfers from stage 1 to stage 2	(59,376)	(76)	59,376	76	-	-	-	-
-Transfers from stage 2 to stage 1	11,778	176	(11,778)	(176)	-	-	-	-
-Transfers to stage 3	-	-	(1,655)	(641)	1,655	641	-	-
-Transfers from stage 3	-	-	348	(272)	(348)	272	-	-
Net remeasurement of ECL arising from transfer of stage	-	(117)	-	44	-	12	-	(61)
Net new lending / (repayments) and changes to risk parameters	16,100	(71)	(35,574)	503	462	552	(19,012)	984
Assets written off	-	-	-	-	(1,046)	(1,046)	(1,046)	(1,046)
Others	-	-	-	-	-	-	-	-
At 31 March 2019	1,678,291	4,009	541,264	13,098	66,868	19,424	2,286,423	36,531
ECL (charge)/release for the period	-	188	-	(547)	-	(564)	-	(923)
Recoveries	-	-	-	-	-	991	-	991
Total ECL (charge)/release for the period	-	188	-	(547)	-	427	-	68

	At 31 March 2019		For the three month period ended 31 March 2019
	Gross carrying / nominal amount	Allowance for ECL	
	RO'000	RO'000	ECL (charge) / release RO'000
As above	2,286,423	36,531	68
Other financial assets measured at amortised cost	203,319	376	43
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	2,489,742	36,907	111
Debt instruments measured at FVOCI	621,232	106	(26)
Total allowance for ECL/total profit or loss ECL charge for the period	3,110,974	37,013	85

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Notes to the unaudited interim condensed financial information (continued)

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying / nominal amount RO'000	Allowance for ECL RO'000	Gross carrying / nominal amount RO'000	Allowance for ECL RO'000	Gross carrying / nominal amount RO'000	Allowance for ECL RO'000	Gross carrying / nominal amount RO'000	Allowance for ECL RO'000
As at 01 January 2018	1,723,066	2,718	756,057	17,619	73,230	20,893	2,552,353	41,230
-Transfers from stage 1 to stage 2	(348,747)	(1,635)	348,747	1,635	-	-	-	-
-Transfers from stage 2 to stage 1	653,014	5,004	(653,014)	(5,004)	-	-	-	-
-Transfers to stage 3	-	-	(14,263)	(3,117)	14,263	3,117	-	-
-Transfers from stage 3	-	-	19,923	4,801	(19,923)	(4,801)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(2,398)	-	2,373	-	2,488	-	2,463
Net new lending / (repayments) and changes to risk parameters	(317,544)	408	73,097	(4,743)	4,984	1,822	(239,463)	(2,513)
Assets written off	-	-	-	-	(6,429)	(4,546)	(6,429)	(4,546)
Others	-	-	-	-	20	20	20	20
At 31 December 2018	1,709,789	4,097	530,547	13,564	66,145	18,993	2,306,481	36,654
ECL (charge)/release for the period		1,990		2,370		(4,310)		50
Recoveries		-		-		1,666		1,666
Total ECL (charge)/release for the period		1,990		2,370		(2,644)		1,716
		At 31 December 2018		For the year ended 31 December 2018				
		Gross carrying / nominal amount RO'000	Allowance for ECL RO'000	ECL (charge) / release RO'000				
As above		2,306,481	36,654	1,716				
Other financial assets measured at amortised cost		297,041	418	(449)				
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement		2,603,522	37,072	1,267				
Debt instruments measured at FVOCI		498,986	80	243				
Total allowance for ECL/total profit or loss ECL charge for the period		3,102,508	37,152	1,510				

Notes to the unaudited interim condensed financial information (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
Personal and consumer loans	494,331	493,901	499,392
Corporate and commercial			
Import trade	184,619	256,571	212,751
Construction	56,216	50,968	67,251
Manufacturing	213,579	238,317	235,155
Wholesale and retail trade	33,028	65,337	65,179
Electricity, gas, water, transportation and communication	20,278	42,554	41,651
Services	135,753	173,364	101,255
Mining and quarrying	172,081	121,973	175,983
Others	48,424	55,992	65,336
	863,978	1,005,076	964,561
Financial Institutions	7,737	-	-
Total gross loans and advances	1,366,046	1,498,977	1,463,953
ECL Allowances	(35,182)	(37,180)	(35,502)
Reserved interest	(39,721)	(34,672)	(38,892)
Net loans and advances	1,291,143	1,427,125	1,389,559
Non-performing loans (NPL)	64,113	56,297	62,981

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

	31 March 2019 RO'000	31 March 2018 RO'000
Balance at the beginning of the period	38,892	33,409
Reserved during the period	1,078	1,998
Released to the statement of comprehensive income	(163)	(89)
Written off during the period	(86)	(646)
Balance at the end of the period	39,721	34,672

The estimated fair value of loans and advances is RO1,217.8 M as of 31 March 2019 (31 March 2018 – RO1,410.6 M and 31 December 2018 – RO1,349.5 M).

Notes to the unaudited interim condensed financial information (continued)

Impairment charge and provision held (as per CBO illustrative disclosure)

As of 31 March 2019	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss (charged) / released to profit and loss account	363	85	(278)
Provisions required*	33,624	37,013	3,389
Gross NPL ratio (percentage)	4.69%	4.69%	-
Net NPL ratio (percentage)	0.73%	0.38%	(0.35%)

*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)

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as of 31 March 2019

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	954,310	13,296	3,900	9,396	950,410	104
	Stage 2	321,586	3,366	8,786	(5,420)	312,800	585
Standard	Stage 3	679	102	181	(79)	498	51
		1,276,575	16,764	12,867	3,897	1,263,708	740
	Stage 1	489	5	-	5	489	-
	Stage 2	23,841	1,792	3,072	(1,280)	20,769	96
Special mention	Stage 3	1,028	154	135	19	893	56
		25,358	1,951	3,207	(1,256)	22,151	152
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	3,229	807	2,285	(1,478)	944	169
		3,229	807	2,285	(1,478)	944	169
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	4,102	1,927	2,571	(644)	1,531	549
		4,102	1,927	2,571	(644)	1,531	549
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	56,782	12,175	14,252	(2,077)	42,530	38,111
		56,782	12,175	14,252	(2,077)	42,530	38,111
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,542,180	-	576	(576)	1,541,604	-
	Stage 2	202,854	-	1,255	(1,255)	201,599	-
	Stage 3	1,048	-	-	-	1,048	-
		1,746,082	-	1,831	(1,831)	1,744,251	-
	Stage 1	2,496,979	13,301	4,476	8,825	2,492,503	104
	Stage 2	548,281	5,158	13,113	(7,955)	535,168	681
	Stage 3	66,868	15,165	19,424	(4,259)	47,444	38,936
Total	Total	3,112,128	33,624	37,013	(3,389)	3,075,115	39,721

Notes to the unaudited interim condensed financial information (continued)

Restructured loans and advances (as per CBO illustrative disclosure) as of 31 March 2019

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net carrying amount RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	10,276	1,644	1,917	(273)	8,359	25
	Stage 3	1,707	256	278	(22)	1,429	107
Sub Total		11,983	1,900	2,195	(295)	9,788	132
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	29,557	7,784	9,926	(2,142)	19,631	15,327
		29,557	7,784	9,926	(2,142)	19,631	15,327
Total	Stage 1	-	-	-	-	-	-
	Stage 2	10,276	1,644	1,917	(273)	8,359	25
	Stage 3	31,264	8,040	10,204	(2,164)	21,060	15,434
	Total	41,540	9,684	12,121	(2,437)	29,419	15,459

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Notes to the unaudited interim condensed financial information (continued)

10 Financial investments

Financial investments details are provided as follows:

	Fair value	Fair value	Fair value	Carrying	Carrying	Carrying	Cost	Cost	Cost
	31 March	31 March	31 December	value*	value	value	31 March	31 March	31 December
	2019	2018	2018	2019	2018	2018	2019	2018	2018
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Marketable securities – MSM									
Government bonds	64,647	61,874	64,984	64,647	61,874	64,984	65,011	64,561	65,287
Unquoted and other investments									
Treasury bills	556,336	521,193	433,752	556,336	521,193	433,752	556,340	521,234	433,765
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	2,216	2,867	2,323	2,216	2,867	2,323	3,003	3,289	3,004
	558,819	524,327	436,342	558,819	524,327	436,342	559,610	524,790	437,036
Total	623,466	586,201	501,326	623,466	586,201	501,326	624,621	589,351	502,323

*ECL allowance on financial investments amounting to RO0.1 M (31 March 2018: RO0.2 M and 31 December 2018: RO0.08 M) has been recorded in FVOCI reserve

Notes to the unaudited interim condensed financial information (continued)

Carrying amount of financial investments

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	556,336	521,193	433,752
Government bonds	64,647	61,874	64,984
Other investments	250	250	250
	621,233	583,317	498,986
Financial investments measured at fair value through profit or loss			
Equity investments	2,233	2,884	2,340
	623,466	586,201	501,326

11 Other assets

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
Acceptances	20,754	16,095	24,940
ECL on acceptances	(45)	(39)	(63)
Acceptances (net of ECL)	20,709	16,056	24,877
Derivatives - positive mark-to-market	5,961	7,226	9,738
Prepayments and accrued income	1,426	978	1,172
Right-of-use assets	3,713	-	-
Others	9,441	6,536	1,701
	41,250	30,796	37,488

12 Intangible assets

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 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	(15,614)	(13,329)	(15,043)
	383	2,668	954

13 Property and equipment

RO0.4 M of property and equipment were added during the period (31 March 2018: RO0.2 M). Property and equipment disposed of during the period was RO0.1 M (31 March 2018: nil).

14 Deposits from customers

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
Deposits details are as follows:			
Current and call	1,139,686	1,016,407	942,902
Savings	409,718	436,867	404,860
Time deposits	360,288	517,131	576,159
Others	2,349	2,232	2,204
	1,912,041	1,972,637	1,926,125

Notes to the unaudited interim condensed financial information (continued)

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

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
0-6 months	826,251	753,350	756,526
6-12 months	320,593	351,059	278,693
1-3 years	159,642	217,460	229,149
3-5 years	155,285	193,018	207,491
Over 5 years	450,270	457,750	454,266
	1,912,041	1,972,637	1,926,125

The interest rate bands of deposits are as follows:

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
0-2%	1,733,222	1,763,795	1,586,427
2-5%	178,819	208,842	339,698
	1,912,041	1,972,637	1,926,125

15 Other liabilities

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
Derivatives – negative mark-to-market	90	167	1,009
Retirement benefit liability	1,293	1,043	1,246
Acceptances	20,754	16,095	24,940
Provisions	251	529	400
ECL on off balance sheet exposure and other commitments	1,305	1,917	1,102
Accruals and deferred income	5,134	4,020	6,905
Lease liabilities	3,151	240	-
Dividend payable	18,603	11,402	-
Others	22,248	10,503	12,493
	72,829	45,916	48,095

16 Contingent liabilities, commitments and derivatives

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
Undrawn unconditionally cancellable commitments*	661,400	553,622	550,495
Undrawn unconditionally non-cancellable commitments	46,239	33,344	33,286
Forward foreign exchange contracts	586,299	361,424	489,446
Interest rate swaps	78,540	77,000	155,540
	1,372,478	1,025,390	1,228,767

*Undrawn unconditionally cancellable commitments of RO 85.3 M (31 December 2018: RO103.5 M) are considered as part of loan commitments for IFRS 9.

As at 31 March 2019, 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.

Notes to the unaudited interim condensed financial information (continued)

17 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 31 March 2019			
Assets			
Derivatives	-	5,961	5,961
Financial investments at fair value through other comprehensive income	347,044	274,189	621,233
Financial investments at fair value through profit or loss	-	2,233	2,233
Liabilities			
Derivatives	-	90	90
Deposits from customers	-	80,101	80,101
At 31 March 2018			
Assets			
Derivatives	-	7,226	7,226
Financial investments at fair value through other comprehensive income	156,802	426,515	583,317
Financial investments at fair value through profit or loss	-	2,884	2,884
Liabilities			
Derivatives	-	167	167
Deposits from customers	-	83,898	83,898
At 31 December 2018			
Assets			
Derivatives	-	9,738	9,738
Financial investments at fair value through other comprehensive income	264,130	234,856	498,986
Financial investments at fair value through profit or loss	-	2,340	2,340
Liabilities			
Derivatives	-	1,009	1,009
Deposits from customers	-	165,414	165,414

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 2018.

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Notes to the unaudited interim condensed financial information (continued)

18 Asset liability mismatch

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

Maturities	31 March 2019			31 March 2018			31 December 2018		
	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	1,272,528	936,427	336,101	1,387,970	874,208	513,762	1,257,163	846,104	411,059
6-12 months	30,080	330,272	(300,192)	28,175	359,708	(331,533)	29,099	313,431	(284,332)
1-3 years	100,846	159,642	(58,796)	124,171	217,460	(93,289)	114,114	229,149	(115,035)
3-5 years	269,423	155,285	114,138	186,063	193,018	(6,955)	273,604	207,491	66,113
more than 5 years	682,143	773,394	(91,251)	684,817	766,802	(81,985)	686,638	764,443	(77,805)
	2,355,020	2,355,020	-	2,411,196	2,411,196	-	2,360,618	2,360,618	-

19 Exposure to credit risk

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

	31 March 2019		31 March 2018	
	Gross carrying /nominal amount (net of reserved interest)	Allowance for ECL	Gross carrying /nominal amount (net of reserved interest)	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	182,100	(137)	173,577	(62)
Due from banks	189,406	(43)	162,406	(3)
Loans and advances to customers				
-RBWM	493,213	(9,398)	492,925	(9,591)
-Wholesale	833,112	(25,784)	971,380	(27,589)
Other assets	22,373	(240)	16,095	(39)
Total gross carrying amount on balance sheet	1,720,204	(35,602)	1,816,383	(37,284)
Loans and other credit related commitments	730,971	(1,305)	548,265	(1,917)
Total nominal amount off balance sheet	730,971	(1,305)	548,265	(1,917)
	Fair Value	Memorandum allowance for ECL	Fair Value	Memorandum allowance for ECL
	RO'000	RO'000	RO'000	RO'000
Financial investments at FVOCI	621,233	(106)	583,317	(154)

20 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (31 March 2018 and 31 December 2018 – 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 (31 March 2018 and 31 December 2018 –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:

	31 March 2019	31 March 2018	31 December 2018
	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

21 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.

Notes to the unaudited interim condensed financial information (continued)

22 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.

The Bank enter into transactions with other HSBC affiliates, as part of the normal course of business, such as banking and operational services. In particular, as a member of one of the world's largest financial services organizations, we share in the expertise and economies of scale provided by the HSBC Group. The Bank provide and receive services or enter into transactions with a number of HSBC Group companies, including sharing in the cost of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas. These related party transactions are on terms similar to those offered to non-related parties.

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:

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
31 March 2019					
Loans and advances	-	-	369	85,395	85,764
Current, deposit and other accounts	-	2,640	203	21,017	23,860
Letters of credit and guarantees	-	169,791	-	12,257	182,048
Acceptances	-	-	-	1,451	1,451
Due from banks	-	47,452	-	-	47,452
Due to banks*	-	20,545	-	-	20,545
Collateral received	-	125,339	-	-	125,339
For the period ended 31 March 2019					
Net fee income**	-	(299)	-	-	(299)
Other operating expenses	-	(3,278)	(4)	(445)	(3,727)
Purchase of property and equipment	-	-	-	(1)	(1)

*Due to banks includes Vostro balances of RO14.6 M from HSBC affiliates and accrual of RO5.9 M for the expenses payable to HSBC Affiliates as of 31 March 2019.

**Net fee income includes fee expenses of RO0.4 M incurred for the indemnity received as a collateral from HSBC affiliates.

Notes to the unaudited interim condensed financial information (continued)

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
31 March 2018					
Loans and advances	-	-	395	169,076	169,471
Current, deposit and other accounts	-	2,110	476	15,691	18,277
Letters of credit and guarantees	-	75,842	-	5,375	81,217
Acceptances	-	-	-	1,086	1,086
Due from banks	-	52,310	-	-	52,310
Due to banks*	-	24,055	-	-	24,055
Collateral received	-	159,829	-	-	159,829
For the period ended 31 March 2018					
Net fee income**	-	(22)	-	-	(22)
Other operating expenses	-	(3,214)	(3)	(514)	(3,731)
Purchase of property and equipment	-	-	-	-	-

*Due to banks includes Vostro balances of RO17.4 M, Borrowings of RO3.3 M from HSBC affiliates and accrual of RO3.4 M for the expenses payable to HSBC Affiliates as of 31 March 2018.

**Net fee income includes fee expenses of RO0.1 M incurred for the indemnity received as a collateral from HSBC affiliates.

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
As at 31 December 2018					
Loans and advances	-	-	378	124,049	124,427
Current, deposit and other accounts	-	3,165	189	16,114	19,468
Letters of credit and guarantees	-	169,301	-	10,231	179,532
Acceptances	-	-	-	911	911
Due from banks	-	45,850	-	-	45,850
Due to banks*	-	21,780	-	-	21,780
Collateral received	-	128,330	-	-	128,330

*Due to banks includes Vostro balances of RO10.6 M, Borrowings of RO6.3 M from HSBC affiliates and accrual of RO4.9 M for the expenses payable to HSBC Affiliates as of 31 December 2018.

During the year Bank purchased the loans and advances of RO22.1 M (31 March 2018: nil and 31 December 2018: RO5.4 M) from HSBC affiliates. However customer attached to these loans are not a related party of the Bank.

Related party loans and advances bear interest at rates between 1.45% p.a. and 6.5% p.a. (31 March 2018: 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. (31 March 2018: between 0.2% p.a. and 1.25% p.a.).

Compensation of key management personnel

	Three month period ended 31 March 2019 RO'000	Three month period ended 31 March 2018 RO'000
Wages, salaries and other short term benefits	397	366
Post-employment benefits	319	286
	716	652

Notes to the unaudited interim condensed financial information (continued)

23 Operating segments

The factors used to identify the Bank's reporting segments are discussed in note 2.1 (f).

	31 March 2019				
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	Total RO'000
Net interest income					
- External	1,137	6,793	4,909	2,605	15,444
- Internal	4,807	836	(1,061)	(4,582)	-
	<u>5,944</u>	<u>7,629</u>	<u>3,848</u>	<u>(1,977)</u>	<u>15,444</u>
Net fee income	492	1,058	1,308	(35)	2,823
Net trading income	332	326	872	2,456	3,986
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(106)	(106)
Other operating income	(30)	(44)	(29)	129	26
Total operating income	<u>6,738</u>	<u>8,969</u>	<u>5,999</u>	<u>467</u>	<u>22,173</u>
Change in expected credit losses and other credit impairment charges	(78)	(81)	248	(4)	85
Net operating income	<u>6,660</u>	<u>8,888</u>	<u>6,247</u>	<u>463</u>	<u>22,258</u>
Total operating expenses	<u>(3,050)</u>	<u>(7,195)</u>	<u>(1,658)</u>	<u>(575)</u>	<u>(12,478)</u>
Profit before tax	<u>3,610</u>	<u>1,693</u>	<u>4,589</u>	<u>(112)</u>	<u>9,780</u>
Reportable segment assets	<u>393,218</u>	<u>485,797</u>	<u>435,856</u>	<u>1,040,149</u>	<u>2,355,020</u>
Reportable segment liabilities	<u>1,075,565</u>	<u>607,432</u>	<u>291,518</u>	<u>50,558</u>	<u>2,025,073</u>

	31 March 2018				
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	Total RO'000
Net interest income					
- External	1,959	6,721	3,926	2,133	14,739
- Internal	2,397	873	(1,350)	(1,920)	-
	<u>4,356</u>	<u>7,594</u>	<u>2,576</u>	<u>213</u>	<u>14,739</u>
Net fee income	1,139	677	2,028	(32)	3,812
Net trading income	398	315	988	586	2,287
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(36)	(36)
Other operating income	(9)	(16)	(9)	59	25
Total operating income	<u>5,884</u>	<u>8,570</u>	<u>5,583</u>	<u>790</u>	<u>20,827</u>
Change in expected credit losses and other credit impairment charges	1,751	(1,300)	960	189	1,600
Net operating income	<u>7,635</u>	<u>7,270</u>	<u>6,543</u>	<u>979</u>	<u>22,427</u>
Total operating expenses	<u>(2,812)</u>	<u>(8,076)</u>	<u>(1,470)</u>	<u>(319)</u>	<u>(12,677)</u>
Profit before tax	<u>4,823</u>	<u>(806)</u>	<u>5,073</u>	<u>660</u>	<u>9,750</u>
Reportable segment assets	<u>515,174</u>	<u>485,031</u>	<u>446,928</u>	<u>964,063</u>	<u>2,411,196</u>
Reportable segment liabilities	<u>1,011,334</u>	<u>640,937</u>	<u>383,246</u>	<u>60,439</u>	<u>2,095,956</u>

Notes to the unaudited interim condensed financial information (continued)

24 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 13.5% including capital conservation buffer for 2019 (31 March 2018: 13.875% and 31 December 2018: 12.875%) in accordance with CBO stipulated guidelines.

	31 March 2019 RO'000	31 March 2018 RO'000	31 December 2018 RO'000
CET 1 / Tier 1 capital	319,204	305,921	318,056
Tier 2 capital (T2)	12,343	18,307	15,438
Total regulatory capital	331,547	324,228	333,494
Risk-weighted assets	1,665,294	2,001,604	1,718,549
CET 1 / Tier 1 capital ratio	19.17%	15.28%	18.51%
Total capital ratio	19.91%	16.20%	19.41%

25 Cash and cash equivalents

25(a) Non-cash items included in profit before tax	Notes	31 March 2019 RO'000	31 March 2018 RO'000
Changes in fair value of financial investments measured at fair value through profit and loss	10	106	36
Change in expected credit losses and other credit impairment charges	5	(85)	(1,600)
Depreciation of property and equipment		618	399
Amortisation of intangible assets	7	571	571
Amortisation of discount on financial investment		(774)	(1,683)
Employer's current service cost with interest		85	73
Finance lease charge		-	7
Effect of currency translation		(397)	-
Loss on disposal of property and equipment		(2)	-
		122	(2,197)

25(b) Change in operating assets		31 March 2019 RO'000	31 March 2018 RO'000
Change in loans and advances to customers-net		97,167	(32,478)
Change in other assets		(4,003)	(2,069)
		93,164	(34,547)

25(c) Change in operating liabilities		31 March 2019 RO'000	31 March 2018 RO'000
Change in deposits from customers		(12,750)	40,587
Change in other liabilities		6,113	(6,550)
		(6,637)	34,037

25(d) The reconciliation of the components of cash and cash equivalents with the equivalent items shown in the unaudited interim condensed statement of financial position is shown below:

	31 March 2019 RO'000	31 March 2018 RO'000
Unaudited interim condensed statement of financial position comprise:		
Cash and balances with central bank	181,963	173,515
Due from banks	189,363	162,403
Due to banks	(36,910)	(74,525)
	334,416	261,393

Notes to the unaudited interim condensed financial information (continued)

26 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 100% for 2019 (for 31 March 2018: 90%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 31 March 2019 was 245% (31 March 2018 – 125%)

Liquidity coverage ratio disclosure for the period ended 31 March 2019:

	31 March 2019	
	Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets		
1 Total High quality liquid assets (HQLA)		735,201
Cash outflows		
2 Retail deposits and deposits from small business customers, of which:		
3 - Stable deposits	583,711	43,732
4 - Less stable deposits	292,769	14,638
5 Unsecured wholesale funding, of which:	290,942	29,094
6 - Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,085,361	460,818
7 - Non-operational deposits (all counterparties)	-	-
8 - Unsecured debt	1,084,497	460,434
9 Secured wholesale funding	-	-
10 Additional requirements, of which	35,156	3,352
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	35,156	3,352
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	868,760	43,438
16 Total cash outflows (2+5+10+15)		550,956
Cash inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	259,196	251,316
19 Other cash inflows	-	-
20 Total cash inflows (17+18+19)	259,196	251,316
21 Total HQLA		735,201
22 Total net cash outflows (16-20)		299,641
23 Liquidity coverage ratio (21/22)		245%

*simple average of daily observations over the last three month (Jan – Mar 2019).

Notes to the unaudited interim condensed financial information (continued)

27 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%. The Bank's NSFR as of 31 March 2019 was 137% (31 March 2018 – 124%)

Net Stable Funding Ratio disclosure for the period ended 31 March 2019:

Available Stable funding (ASF) items		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	342,290	-	-	-	342,290
2	Regulatory capital	334,371	-	-	-	334,371
3	Other capital instruments	7,919	-	-	-	7,919
4	Retail deposits and deposits from small business customers	564,442	17,712	13,123	3,345	552,821
5	Stable deposits	273,739	458	340	-	260,810
6	Less stable deposits	290,703	17,254	12,783	3,345	292,011
7	Wholesale funding:	1,027,524	189,143	131,240	2,423	676,376
8	Operational deposits	36,911	-	-	-	18,456
9	Other wholesale funding	990,613	189,143	131,240	2,423	657,920
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	59,110	19,203	1,551	-	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	59,110	19,203	1,551	-	-
14	Total ASF					1,571,487
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	31,049
16	Deposits held at other financial institutions for operational purposes	19,336	-	-	-	9,668
17	Performing loans and securities:	2,484	528,721	20,150	843,635	967,631
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	-	170,070	-	-	25,511
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	-	355,649	17,477	741,434	826,495
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	79,498	51,674
22	Performing residential mortgages, of which:	-	3,002	2,673	102,201	61,841
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	3,002	2,673	90,774	59,003

Notes to the unaudited interim condensed financial information (continued)

24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	2,484	-	-	-	2,111
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	42,223	26,226	-	5,470	74,699
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	-			5,871	5,871
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	42,223	20,355	780	5,470	68,828
32	Off-balance sheet items	-	833,558	49,422	424,092	65,354
33	TOTAL RSF					1,148,401
34	NET STABLE FUNDING RATIO (%)					137%

Notes to the unaudited interim condensed financial information (continued)

28 Leverage ratio

Leverage ratio is guided by the CBO through circular BM 1157 (Guidelines on implementation on Basel III leverage ratio). Leverage ratio is calculated on quarterly intervals and reported to the CBO. The standard for Leverage ratio become effective from 31 December 2018 with a minimum ratio of 4.5%. The Bank's leverage ratio as of 31 March 2019 was 11.4% (31 March 2018 – 11.1%)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

	As at 31.03.2019
1 Total consolidated assets as per published financial statements	2,355,020
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4 Adjustments for derivative financial instruments	11,824
5 Adjustment for securities financing transactions (i.e., repos and similar secured lending)	-
6 Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	445,507
7 Other adjustments	(2,274)
8 Leverage ratio exposure	2,810,077

Table 2: Leverage ratio common disclosure template

	As at 31.03.2019
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,355,020
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(2,274)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,352,746
Derivative Exposures	
4 Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	5,961
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions	5,863
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8 (Exempted CCP leg of client-cleared trade exposures)	-
9 Adjusted effective notional amount of written credit derivatives	-
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11 Total derivative exposures (sum of lines 4 to 10)	11,824
Securities financing transaction exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14 CCR exposure for SFT assets	-
15 Agent transaction exposures	-
16 Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other Off-balance sheet exposures	
17 Off-balance sheet exposure at gross notional amount	1,307,072
18 (Adjustments for conversion to credit equivalent amounts)	(861,565)
19 Off-balance sheet items (sum of lines 17 and 18)	445,507
Capital and total exposures	
20 Tier 1 capital	319,204
21 Total exposures (sum of lines 3, 11, 16 and 19)	2,810,077
Leverage Ratio	
22 Basel III leverage ratio (%)	11.4

29 Corresponding figures

Certain corresponding figures for 2018 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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