

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 June 2019



Interim Condensed Financial Information – 30 June 2019

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Presentation of information

This document comprises the Interim Condensed Financial Information – 30 June 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 six months ended 30 June 2019

Dear Shareholders,

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

Performance Summary

I am encouraged by our results for the first half of 2019. Our first half performance shows 24.7% increase in net profit to RO19.2 M compared with RO15.4 M for the same period in 2018, mainly due to 4.9% growth in our revenues, releases in expected credit losses and continuing firm cost control.

Net interest income grew by 2.7% to RO30.6 M for the period ended 30 June 2019 compared with RO29.8 M for the same period in 2018, due to higher yield on wholesale loans and the benefit from investing our surplus liquidity in Interbank market partly offset by high cost on term deposits. Net fee income fell 16.7% to RO5.5 M for the period ended 30 June 2019 mainly due to the non-repeat of some structuring and advisory fees from our wholesale customers in the same period last year.

Net trading income increased by 40.7% to RO8.3 M compared with RO5.9 M for the same period last year owing to higher income from FX SWAP.

A net release of RO2.3 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 RO1.0 M for the same period last year. The lower ECLs was driven by a reduction in the Retail ECLs by RO5.3 M (favorable movement in LGD rates), partly offset by increase in the wholesale ECLs of RO3.9 M (favorable movement in last year).

Operating expenses fell 4.0% to RO24.2 M compared with RO25.2 M for the same period in 2018 due to our continuing focus on firm cost control.

Loans and advances to customers marginally grew by 0.1% to RO1,399.0 M when compared with RO1,397.0 M as at 30 June 2018.

Customer deposits fell by 1.1% to RO2,027.1 M when compared to same period last year; our liquidity remains very strong in the market with an Advances to Deposit ratio (ADR) of 69.0% at the first half of 2019.

HBON's Capital Adequacy Ratio (CAR) stood at 18.6% as at 30 June 2019 compared with 18.7% as at 30 June 2018.

Delivering the best customer experience

In the second quarter, Retail Banking and Wealth Management continued to focus on growth in premium segments leveraging on the momentum built by the campaign in 1Q. During the quarter we launched contactless cards, which allows faster and simpler card payments at retailers who have Contactless terminals instead of inputting the PIN. On the digital front, we launched a new version of our website during the quarter and installed a new ATM in Al Kahel.

Within the Wholesale Banking business, HSBC Bank Oman was awarded the Euromoney Award for Excellence - Best Investment Bank in Oman, which reflects our strong position, our unrivalled ability to deliver cross-border solutions for our clients and our unique Investment Banking Coverage platform.

During the quarter we also introduced to the Public Authority of Social Insurance (PASI) its Virtual Accounts solution, which will give PASI the ability to collect, process and improve its reconciliation of all contributions sent by corporates across the Gulf, which are currently paid through a variety of local banks.

Investing in our people and the community

Omanisation is currently at 94%, ahead of the Central Bank of Oman's (CBO) target of 90%. We continued to invest in staff training programmes at the Bank, delivering 2,168 Learner Man-days during the Quarter in classrooms as well as via e-learning sessions.

Under Corporate Sustainability, The Bank concluded "Tatawwar Programme", which is the latest in a series of efforts and initiatives by HSBC to accelerate innovation and investment in the sector by creating awareness about water scarcity among young people and encouraging them to develop the innovation and entrepreneurial skills needed to meet the challenge of sustainability.

The programme attracted more than 500 students from Oman, UAE, Bahrain, Qatar and Egypt, giving them access to online tools and learning guides to help them develop social enterprise plans, face-to-face workshops, and opportunities to participate in webinars with experts and consultants to help refine their business models.

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 take this opportunity to express our deepest wishes to His Majesty Sultan Qaboos Bin Said on the occasion of the Renaissance Day, confirming our continuous and full support as he continues to lead the Sultanate to further prosperity and development.

**Sir Sherard Cowper-Coles
Chairman**

Summary of unaudited results for the six month period ended 30 June 2019

	30 June 2019	30 June 2018	
	RO'000	RO'000	Change (%)
Loans and advances to customers - net	1,399,049	1,397,029	0.1%
Customer deposits	2,027,082	2,049,034	(1.1)%
Net assets	341,229	322,899	5.7%
* Net assets per share	0.171	0.161	5.7%
	Six month	Six month	
	period ended	period ended	
	30 June 2019	30 June 2018	Change (%)
	RO'000	RO'000	
Net interest income	30,572	29,818	2.5%
Profit for the period	19,233	15,369	25.1%
** Earnings per share (annualised)	0.019	0.015	26.7%
***Capital adequacy ratio (CAR)	18.56%	18.71%	(0.15)%

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

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

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

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

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Introduction

We have reviewed the accompanying interim condensed statement of financial position of **HSBC Bank Oman SAOG (the Bank)** as of 30 June 2019, and the related interim condensed statements of comprehensive income for the three month and six month periods then ended, and interim condensed statements of changes in equity and cash flows for the six month periods 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").

Other matters

The comparative information for the condensed interim statement of financial position is based on the audited financial statements as at 31 December 2018 which were audited by another firm whose report dated 4 March 2019 expressed an unmodified opinion.

The comparative information for the condensed interim statement of financial position as of 30 June 2018 and for condensed interim statements of comprehensive income for the three and six month periods then ended, statement of changes in equity and cash flows, and related explanatory notes, for the six month period ended 30 June 2018 has been reviewed by another firm whose report dated 26 July 2018 expressed an unmodified conclusion.

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



Unaudited interim condensed statement of comprehensive income for the six month period ended 30 June 2019

		Three month period ended 30 June 2019 RO'000	Three month period ended 30 June 2018 RO'000	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
Interest income	3	19,147	17,554	37,468	34,604
Interest expense	4	(4,019)	(2,475)	(6,896)	(4,786)
Net interest income		15,128	15,079	30,572	29,818
Fee income		3,602	3,657	7,512	8,234
Fee expense		(959)	(824)	(2,046)	(1,589)
Net fee income		2,643	2,833	5,466	6,645
Net trading income		4,326	3,596	8,312	5,883
Changes in fair value of financial investments measured at fair value through profit and loss		27	(165)	(79)	(201)
Dividend income		19	128	19	128
Other operating income - net		545	460	571	485
Net operating income before loan impairment charges and other credit risk provisions		22,688	21,931	44,861	42,758
Change in expected credit losses and other credit impairment charges	5	2,233	(607)	2,318	993
Net operating income		24,921	21,324	47,179	43,751
Employee compensation and benefits		(5,784)	(5,664)	(11,583)	(11,428)
General and administrative expenses	6	(4,911)	(5,919)	(10,401)	(11,862)
Depreciation of property and equipment		(535)	(396)	(1,153)	(795)
Amortisation of intangible assets	7	(467)	(572)	(1,038)	(1,143)
Total operating expenses		(11,697)	(12,551)	(24,175)	(25,228)
Profit before tax		13,224	8,773	23,004	18,523
Tax expense		(2,119)	(1,509)	(3,771)	(3,154)
Profit for the period		11,105	7,264	19,233	15,369
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 gain / (loss)		231	484	178	(82)
-Expected credit losses recognised in income statement		(19)	(16)	7	(185)
-Income tax		(35)	(73)	(27)	12
Other comprehensive gain /(loss) for the period - net of tax		177	395	158	(255)
Total comprehensive income for the period		11,282	7,659	19,391	15,114
Earnings per share – basic and diluted	8				
-for the period (RO)		0.006	0.004	0.010	0.008
-annualised (RO)		0.022	0.015	0.019	0.015

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

Unaudited interim condensed statement of financial position as at 30 June 2019

		At 30 June 2019	At 30 June 2018	Audited At 31 December 2018
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		258,187	122,323	270,574
Due from banks		225,678	350,416	132,792
Loans and advances to customers - net	9	1,399,049	1,397,029	1,389,559
Financial investments - FVOCI	10	514,791	514,127	498,986
Financial investments - FVTPL	10	2,261	2,570	2,340
Other assets	11	37,657	31,790	37,488
Intangible assets	12	879	2,096	954
Property and equipment	13	23,920	25,766	25,521
Deferred tax assets		1,844	2,358	2,404
Total assets		2,464,266	2,448,475	2,360,618
Liabilities and equity				
Liabilities				
Due to banks		43,241	38,293	37,778
Deposits from customers	14	2,027,082	2,049,034	1,926,125
Other liabilities	15	47,316	33,862	48,095
Current tax liabilities		5,398	4,387	8,179
Total liabilities		2,123,037	2,125,576	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)	(32)	(1,770)	(190)
Retained earnings		98,214	84,759	97,584
Net equity		341,229	322,899	340,441
Total liabilities and equity		2,464,266	2,448,475	2,360,618
Net assets per share - RO		0.171	0.161	0.170
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		73,453	45,452	47,845
- Guarantees and performance bonds		512,903	580,543	525,074
- Others	16	1,476,332	1,219,724	1,228,767
		2,062,688	1,845,719	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 July 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 six month period ended 30 June 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	-	-	-	15,369	15,369
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(255)	-	(255)
Total other comprehensive loss for the period	-	-	(255)	-	(255)
Total comprehensive (loss) / income for the period	-	-	(255)	15,369	15,114
Transaction with shareholders, recorded directly in equity					
Dividend for 2017	-	-	-	(11,402)	(11,402)
At 30 June 2018	200,031	39,879	(1,770)	84,759	322,899
At 1 January 2019	200,031	43,016	(190)	97,584	340,441
Total comprehensive income for the period					
Profit for the period	-	-	-	19,233	19,233
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	158	-	158
Total other comprehensive income for the period	-	-	158	-	158
Total comprehensive income for the period	-	-	158	19,233	19,391
Transaction with shareholders, recorded directly in equity					
Dividend for 2018	-	-	-	(18,603)	(18,603)
At 30 June 2019	200,031	43,016	(32)	98,214	341,229

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

**Unaudited interim condensed statement of cash flows for the six month period ended
30 June 2019**

	Notes	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
Cash flows from operating activities			
Profit before tax		23,004	18,523
Adjustments for:			
- non-cash items included in profit before tax	25(a)	(2,612)	(737)
-Change in operating assets	25(b)	(7,819)	(6,068)
-Change in operating liabilities	25(c)	100,136	109,740
-Tax paid		(6,019)	(3,413)
- Retirement benefits paid		(54)	(102)
Net cash generated from operating activities		106,636	117,943
Cash flows from investing activities			
Purchase of financial investments		(1,432,782)	(1,211,591)
Proceeds from maturity of financial investments		1,419,295	1,311,609
Purchase of property, equipment and softwares		(960)	(324)
Proceeds from sale of property and equipment	13	1,450	-
Net cash (used in) / generated from investing activities		(12,997)	99,694
Cash Flows from financing activities			
Dividends paid		(18,603)	(11,402)
Net cash used in in financing activities		(18,603)	(11,402)
Net change in cash and cash equivalents		75,036	206,235
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)	440,624	434,446

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 of 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' had a significant effect on the interim condensed financial information of the Bank.

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 accounting for most leases by a lessee 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 right of use asset is amortised over the length of the lease, and the financial liability is 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 amortization 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),
and the lease liability is included in 'Other liabilities' (note 15)

In the Statement of comprehensive income,
the amortization charge for 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 3.60% for the six month period ended 30 June 2019 (30 June 2018 – 3.20%).

	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
Loans and advances to customers	31,918	30,387
Financial investments	2,911	3,136
Due from banks	2,639	1,081
	37,468	34,604

4 Interest expense

For the six month period ended 30 June 2019, the average overall annualised cost of funds was 0.68% (30 June 2018 – 0.46%).

	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
Deposits from customers	(6,738)	(4,666)
Others	(158)	(120)
	(6,896)	(4,786)

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

	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
- loans and advances to customer	2,138	(1,076)
- due from banks	-	(1)
- loan commitments and financial guarantees	144	1,948
- other financial assets	43	(63)
- financial investments at FVOCI	(7)	185
	2,318	993

Notes to the unaudited interim condensed financial information (continued)

6 General and administrative expenses

	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
Marketing and advertising*	(931)	(1,069)
Premises and equipment	(1,398)	(1,783)
Communications	(279)	(302)
Insurance	(514)	(544)
Other administrative expense	(7,279)	(8,164)
	(10,401)	(11,862)

*Marketing and advertising expenses for the current period include the RO0.6 M of "Mandoos Prize" draw expenses (30 June 2018: RO0.6 M).

7 Amortisation of intangible assets

	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
This represents amortisation of intangible assets as a result of business combination and is accounted for as follows :		
- Core deposits	(733)	(880)
- Customer relationships	(219)	(263)
- Softwares	(86)	-
	(1,038)	(1,143)

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:

	Six month period ended 30 June 2019	Six month period ended 30 June 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)	19,233	15,369	31,366
Earnings per share – basic and diluted (RO)			
- for the period / year	0.010	0.008	0.016
- annualised	0.019	0.015	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.

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Overdrafts	116,404	64,208	66,181
Credit cards	28,449	25,647	28,631
Loans	1,157,991	1,034,747	1,165,957
Clean import loans	158,074	323,535	191,527
Bills discounted / purchased	11,242	22,508	11,657
Gross loans and advances	1,472,160	1,470,645	1,463,953
Allowances for expected credit losses (ECL)	(32,780)	(37,554)	(35,502)
Reserved interest*	(40,331)	(36,062)	(38,892)
Net loans and advances	1,399,049	1,397,029	1,389,559

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

Reconciliation of allowance for ECL on Loans and advances to customers:

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
At 1 January	35,502	38,207	38,207
Net remeasurement of ECL arising from transfer of stage	(84)	(1,009)	2,452
Net new lending and changes to risk parameters	(304)	3,688	(631)
Assets written off	(2,334)	(3,332)	(4,546)
Others	-	-	20
At 30 June / 31 December	32,780	37,554	35,502
ECL release / (charge) for the period / year	388	(2,679)	(1,821)
Recoveries	1,750	1,603	1,663
Total ECL income release /(charge) for the period / year	2,138	(1,076)	(158)

The movement on reserved interest for period / year ended is analysed below:

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
At 1 January	38,892	33,409	33,409
Reserved during the period	2,143	3,320	6,389
Released to the statement of comprehensive income	(338)	(198)	(362)
Written off during the period	(366)	(469)	(544)
At 30 June / 31 December	40,331	36,062	38,892

Notes to the unaudited interim condensed financial information (continued)

9 Loans and advances to customers – net (continued)

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

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
0-5%	984,592	1,025,940	1,038,869
5-7%	399,200	333,186	335,924
7-10%	37,243	43,294	41,021
10-13%	19,011	38,831	15,506
More than 13%	32,114	29,394	32,633
	1,472,160	1,470,645	1,463,953

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

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
0-6 months	373,882	498,325	419,694
6-12 months	21,998	11,908	16,734
1-3 years	49,623	147,069	63,461
3-5 years	350,233	138,558	252,634
More than 5 years	603,313	601,169	637,036
	1,399,049	1,397,029	1,389,559

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Personal and consumer loans	497,274	500,746	499,392
Corporate and commercial			
Import trade	197,107	249,084	212,751
Construction	67,850	38,889	67,251
Manufacturing	226,448	252,830	235,155
Wholesale and retail trade	85,793	71,409	65,179
Electricity, gas, water, transportation and communication	14,781	52,831	41,651
Services	126,118	113,710	101,255
Mining and quarrying	171,117	121,320	175,983
Others	77,966	69,826	65,336
	967,180	969,899	964,561
Financial Institutions	7,706	-	-
Total gross loans and advances	1,472,160	1,470,645	1,463,953
ECL allowance	(32,780)	(37,554)	(35,502)
Reserved interest	(40,331)	(36,062)	(38,892)
Net loans and advances	1,399,049	1,397,029	1,389,559
Non-performing loans (NPL)	64,220	57,356	62,981

Notes to the unaudited interim condensed financial information (continued)

9 Loans and advances to customers – net (continued)

The estimated fair value of loans and advances is RO1,359.1 M as of 30 June 2019 (30 June 2018 – RO1,364.6 M and 31 December 2018 – RO1,349.5 M).

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

As of 30 June 2019	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss released to profit and loss	243	2,318	2,075
Provisions required*	33,744	34,251	507
Gross NPL ratio (percentage)	4.36%	4.36%	-
Net NPL ratio (percentage)	0.60%	0.32%	(0.28)%

*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 30 June 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	1,048,521	14,245	3,469	10,776	1,045,052	113
	Stage 2	336,357	3,510	7,183	(3,673)	329,174	654
Standard	Stage 3	-	-	-	-	-	-
		1,384,878	17,755	10,652	7,103	1,374,226	767
	Stage 1	447	4	4	-	443	-
	Stage 2	21,312	223	2,669	(2,446)	18,643	104
Special mention	Stage 3	1,303	216	207	9	1,096	66
		23,062	443	2,880	(2,437)	20,182	170
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	2,972	743	1,806	(1,063)	1,166	194
		2,972	743	1,806	(1,063)	1,166	194
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	2,342	1,201	1,744	(543)	598	224
		2,342	1,201	1,744	(543)	598	224
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	58,906	13,602	15,697	(2,095)	43,209	38,976
		58,906	13,602	15,697	(2,095)	43,209	38,976
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,603,556	-	811	(811)	1,602,745	-
	Stage 2	173,127	-	661	(661)	172,466	-
	Stage 3	1,048	-	-	-	1,048	-
		1,777,731	-	1,472	(1,472)	1,776,259	-
	Stage 1	2,652,524	14,249	4,284	9,965	2,648,240	113
	Stage 2	530,796	3,733	10,513	(6,780)	520,283	758
	Stage 3	66,571	15,762	19,454	(3,692)	47,117	39,460
Total	Total	3,249,891	33,744	34,251	(507)	3,215,640	40,331

Notes to the unaudited interim condensed financial information (continued)

9 Loans and advances to customers – net (continued)

Restructured loans and advances (as per CBO illustrative disclosure) as of 30 June 2019

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount	Reserve interest as per CBO norms
(1)	(2)	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	10,812	108	1,890	(1,782)	8,922	-
	Stage 3	1,303	216	202	14	1,101	126
Sub Total		12,115	324	2,092	(1,768)	10,023	126
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	29,799	7,890	9,947	(2,057)	19,852	15,341
		29,799	7,890	9,947	(2,057)	19,852	15,341
Total	Stage 1	-	-	-	-	-	-
	Stage 2	10,812	108	1,890	(1,782)	8,922	-
	Stage 3	31,102	8,106	10,149	(2,043)	20,953	15,467
	Total	41,914	8,214	12,039	(3,825)	29,875	15,467

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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
	30 June	30 June	31 December	value*	value	value	30 June	30 June	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	64,984	74,524	64,984	64,984	74,524	64,984	65,123	76,767	65,287
Unquoted and other investments									
Treasury bills	449,557	439,353	433,752	449,557	439,353	433,752	449,557	439,353	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	2,244	2,553	2,323	2,244	2,553	2,323	2,244	3,165	3,004
	452,068	442,173	436,342	452,068	442,173	436,342	452,068	442,785	437,036
Total	517,052	516,697	501,326	517,052	516,697	501,326	517,191	519,552	502,323

*ECL allowance on financial investments amounting to RO0.1 M (30 June 2018: RO0.1 M and 31 December 2018: RO0.08 M) has been recorded in FVOCI reserve

Notes to the unaudited interim condensed financial information (continued)

10 Financial investments (continued)

Carrying amount of financial investments

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	449,557	439,353	433,752
Government bonds	64,984	74,524	64,984
Other investments	250	250	250
	514,791	514,127	498,986
Financial investments measured at fair value through profit or loss			
Equity investments	2,261	2,570	2,340
	517,052	516,697	501,326

11 Other assets

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Acceptances	22,996	12,528	24,940
ECL on acceptances	(53)	(17)	(63)
Acceptances (net of ECL)	22,943	12,511	24,877
Derivatives - positive mark-to-market	2,716	13,848	9,738
Prepayments and accrued income	707	981	1,172
Right-of-use assets	3,538	-	-
Others	7,753	4,450	1,701
	37,657	31,790	37,488

12 Intangible assets

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Core deposits	12,306	12,306	12,306
Customer relationships	3,691	3,691	3,691
Softwares	1,403	-	-
	17,400	15,997	15,997
Less: amortised	(16,521)	(13,901)	(15,043)
	879	2,096	954

13 Property and equipment

RO0.3 M of property and equipment were added during the period (30 June 2018: RO0.3 M). Property and equipment disposed of during the period was RO4.5 M (30 June 2018: RO0.1 M).

Notes to the unaudited interim condensed financial information (continued)

14 Deposits from customers

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Deposits details are as follows:			
Current and call	978,440	1,090,890	942,902
Savings	405,949	428,703	404,860
Time deposits	640,526	527,029	576,159
Others	2,167	2,412	2,204
	2,027,082	2,049,034	1,926,125

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

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
0-6 months	809,519	783,165	756,526
6-12 months	289,629	332,419	278,693
1-3 years	150,020	231,263	229,149
3-5 years	381,359	209,453	207,491
Over 5 years	396,555	492,734	454,266
	2,027,082	2,049,034	1,926,125

The interest rate bands of deposits are as follows:

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
0-2%	1,542,244	1,838,311	1,586,427
2-5%	484,838	210,723	339,698
	2,027,082	2,049,034	1,926,125

15 Other liabilities

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Derivatives – negative mark-to-market	2,139	352	1,009
Retirement benefit liability	1,315	1,079	1,246
Acceptances	22,996	12,528	24,940
Provisions	247	1,282	400
ECL on off balance sheet exposure and other commitments	958	894	1,102
Accruals and deferred income	4,889	5,333	6,905
Lease liabilities	3,093	252	-
Others	11,679	12,142	12,493
	47,316	33,862	48,095

Notes to the unaudited interim condensed financial information (continued)

16 Contingent liabilities, commitments and derivatives

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
Undrawn unconditionally cancellable commitments*	712,294	592,091	550,495
Undrawn unconditionally non-cancellable commitments	55,939	31,159	33,286
Forward foreign exchange contracts	533,309	500,224	489,446
Interest rate swaps	174,790	96,250	155,540
	1,476,332	1,219,724	1,228,767

*Undrawn unconditionally cancellable commitments of RO168.6 M (31 December 2018: RO103.5 M) are considered as part of loan commitments for IFRS 9.

As at 30 June 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 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 30 June 2019			
Assets			
Derivatives	-	2,716	2,716
Financial investments at fair value through other comprehensive income	280,016	234,775	514,791
Financial investments at fair value through profit or loss	-	2,261	2,261
Liabilities			
Derivatives	-	2,139	2,139
Deposits from customers	-	175,430	175,430
At 30 June 2018			
Assets			
Derivatives	-	13,848	13,848
Financial investments at fair value through other comprehensive income	237,903	276,224	514,127
Financial investments at fair value through profit or loss	-	2,570	2,570
Liabilities			
Derivatives	-	352	352
Deposits from customers	-	103,750	103,750
At 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	30 June 2019			30 June 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	1,311,477	903,658	407,819	1,419,063	858,397	560,666	1,257,163	846,104	411,059
6-12 months	34,654	309,669	(275,015)	23,233	348,200	(324,967)	29,099	313,431	(284,332)
1-3 years	94,238	150,069	(55,831)	195,750	231,263	(35,513)	114,114	229,149	(115,035)
3-5 years	382,718	381,359	1,359	158,842	209,453	(50,611)	273,604	207,491	66,113
more than 5 years	641,179	719,511	(78,332)	651,587	801,162	(149,575)	686,638	764,443	(77,805)
	2,464,266	2,464,266	-	2,448,475	2,448,475	-	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

	30 June 2019		30 June 2018	
	Gross carrying /nominal amount (net of reserved interest) RO'000	Allowance for ECL RO'000	Gross carrying /nominal amount (net of reserved interest) RO'000	Allowance for ECL RO'000
Cash and balances with central bank	258,318	(131)	122,521	(198)
Due from banks	225,728	(50)	350,418	(2)
Loans and advances to customers				
-RBWM	496,083	(6,146)	499,805	(9,721)
-Wholesale	935,746	(26,634)	934,778	(27,833)
Other assets	23,896	(245)	12,528	(17)
Total gross carrying amount on balance sheet	1,939,771	(33,206)	1,920,050	(37,771)
Loans and other credit related commitments	754,998	(958)	625,995	(894)
Total nominal amount off balance sheet	754,998	(958)	625,995	(894)
	Fair Value RO'000	Memorandum allowance for ECL RO'000	Fair Value RO'000	Memorandum allowance for ECL RO'000
Financial investments at FVOCI	514,791	(87)	514,127	(138)

20 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 June 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 (30 June 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:

	30 June 2019 Number of shares	30 June 2018 Number of shares	31 December 2018 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 enters 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
30 June 2019					
Loans and advances	-	-	365	114,158	114,523
Current, deposit and other accounts	-	2,948	465	12,292	15,705
Letters of credit and guarantees	-	121,614	-	13,969	135,583
Acceptances	-	-	-	1,132	1,132
Due from banks	-	35,845	-	-	35,845
Due to banks*	-	26,074	-	-	26,074
Collateral received	-	129,296	-	-	129,296
For the period ended 30 June 2019					
Net fee income**	-	(424)	-	-	(424)
Other operating expenses	-	(6,095)	(11)	(572)	(6,678)
Purchase of property and equipment	-	-	-	(23)	(23)

*Due to banks includes Vostro balances of RO22.0 M from HSBC affiliates and accrual of RO4.1 M for the expenses payable to HSBC Affiliates as of 30 June 2019.

**Net fee income includes fee expenses of RO0.7 M incurred for the indemnity received as a collateral from HSBC affiliates.

Notes to the unaudited interim condensed financial information (continued)

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

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
30 June 2018					
Loans and advances	-	-	388	125,986	126,374
Current, deposit and other accounts	-	2,536	329	17,542	20,407
Letters of credit and guarantees	-	104,348	-	7,710	112,058
Acceptances	-	-	-	819	819
Due from banks	-	52,427	-	-	52,427
Due to banks*	-	23,736	-	-	23,736
Collateral received	-	189,754	-	-	189,754
For the period ended 30 June 2018					
Net fee income**	-	(195)	-	-	(195)
Other operating expenses	-	(6,386)	(10)	(467)	(6,863)

*Due to banks includes Vostro balances of RO9.5 M, Borrowings of RO9.3 M from HSBC affiliates and accrual of RO4.9 M for the expenses payable to HSBC Affiliates as of 30 June 2018.

**Net fee income includes fee expenses of RO0.3 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 period the Bank purchased loans and advances of RO16.7 M (30 June 2018: nil and 31 December 2018: RO5.4 M) from HSBC affiliates. However the customer attached to these loans are not related parties of the Bank.

Related party loans and advances bear interest at rates between 3.75% p.a. and 4.70% p.a. (30 June 2018: between 1.45% p.a. and 6.5% p.a.). Related party deposits bear interest at rates between 1.7% p.a. and 2.0% p.a. (30 June 2018: between 0.2% p.a. and 1.25% p.a.).

Compensation of key management personnel

	Six month period ended 30 June 2019 RO'000	Six month period ended 30 June 2018 RO'000
Wages, salaries and other short term benefits	802	761
Post-employment benefits	334	300
	1,136	1,061

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 Annual Report and Accounts 2018.

	30 June 2019				Total RO'000
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	
Net interest income					
- External	1,827	13,609	9,800	5,336	30,572
- Internal	9,537	1,723	(2,408)	(8,852)	-
	11,364	15,332	7,392	(3,516)	30,572
Net fee income	1,153	2,239	2,144	(70)	5,466
Net trading income	593	675	1,861	5,183	8,312
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(79)	(79)
Other operating income	(17)	(14)	(16)	637	590
Total operating income	13,093	18,232	11,381	2,155	44,861
Change in expected credit losses and other credit impairment charges	(443)	2,642	93	26	2,318
Net operating income	12,650	20,874	11,474	2,181	47,179
Total operating expenses	(5,815)	(14,688)	(3,276)	(396)	(24,175)
Profit before tax	6,835	6,186	8,198	1,785	23,004
Reportable segment assets	508,227	491,851	424,241	1,039,947	2,464,266
Reportable segment liabilities	1,113,453	596,230	382,903	30,451	2,123,037

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

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 (30 June 2018: 12.875% and 31 December 2018: 12.875%) in accordance with CBO stipulated guidelines.

	30 June 2019 RO'000	30 June 2018 RO'000	31 December 2018 RO'000
CET 1 / Tier 1 capital	318,915	305,921	318,056
Tier 2 capital (T2)	10,592	18,307	15,438
Total regulatory capital	329,507	324,228	333,494
Risk-weighted assets	1,775,485	1,733,000	1,718,549
CET 1 / Tier 1 capital ratio	17.96%	17.65%	18.51%
Total capital ratio	18.56%	18.71%	19.41%

25 Cash and cash equivalents

25(a) Non-cash items included in profit before tax	Notes	30 June 2019 RO'000	30 June 2018 RO'000
Changes in fair value of financial investments measured at fair value through profit and loss	10	79	201
Net gain on sale of financial investment		-	(5)
Change in expected credit losses and other credit impairment charges	5	(2,318)	(993)
Depreciation of property and equipment		1,153	795
Amortisation of intangible assets	7	1,038	1,143
Amortisation of discount on financial investment		(1,743)	(2,079)
Employer's current service cost with interest		123	181
Finance lease charge		-	20
Effect of currency translation		(397)	-
Gain on disposal of property and equipment		(547)	-
		(2,612)	(737)

25(b) Change in operating assets	30 June 2019 RO'000	30 June 2018 RO'000
Change in loans and advances to customers-net	(7,172)	(3,005)
Change in other assets	(647)	(3,063)
	(7,819)	(6,068)

25(c) Change in operating liabilities	30 June 2019 RO'000	30 June 2018 RO'000
Change in deposits from customers	100,957	116,984
Change in other liabilities	(821)	(7,244)
	100,136	109,740

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:

	30 June 2019 RO'000	30 June 2018 RO'000
Unaudited interim condensed statement of financial position comprise:		
Cash and balances with central bank	258,187	122,323
Due from banks	225,678	350,416
Due to banks	(43,241)	(38,293)
	440,624	434,446

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 30 June 2018: 90%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 30 June 2019 was 223% (30 June 2018 – 134%)

Liquidity coverage ratio disclosure for the period ended 30 June 2019:

	30 June 2019	
	Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets		
1 Total High quality liquid assets (HQLA)		682,358
Cash outflows		
2 Retail deposits and deposits from small business customers, of which:		
3 - Stable deposits	588,748	45,037
4 - Less stable deposits	276,754	13,838
5 Unsecured wholesale funding, of which:	311,994	31,199
6 - Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,013,957	440,037
7 - Non-operational deposits (all counterparties)	-	-
8 - Unsecured debt	1,013,957	440,037
9 Secured wholesale funding	-	-
10 Additional requirements, of which	52,722	5,130
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	52,722	5,130
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	712,506	35,625
16 Total cash outflows (2+5+10+15)		525,829
Cash inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	229,065	220,457
19 Other cash inflows	-	-
20 Total cash inflows (17+18+19)	229,065	220,457
21 Total HQLA		682,358
22 Total net cash outflows (16-20)		305,372
23 Liquidity coverage ratio (21/22)		223%

*simple average of daily observations over the last three month (Apr – Jun 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 30 June 2019 was 145% (30 June 2018 – 119%).

Net Stable Funding Ratio disclosure for the period ended 30 June 2019:

Available Stable funding (ASF) items		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	351,821	-	-	-	351,821
2	Regulatory capital	332,620	-	-	-	332,620
3	Other capital instruments	19,201	-	-	-	19,201
4	Retail deposits and deposits from small business customers	565,180	13,016	9,330	6,912	549,513
5	Stable deposits	276,238	189	136	-	262,735
6	Less stable deposits	288,942	12,827	9,194	6,912	286,778
7	Wholesale funding:	869,185	284,834	83,943	237,923	856,905
8	Operational deposits	43,241	-	-	-	21,621
9	Other wholesale funding	825,944	284,834	83,943	237,923	835,284
10	Liabilities with matching interdependent assets					
11	Other liabilities:	30,590	22,140	807	49	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	30,590	22,140	807	49	-
14	Total ASF					1,758,239
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)					25,727
16	Deposits held at other financial institutions for operational purposes	21,685	-	-	-	10,843
17	Performing loans and securities:	2,511	388,453	19,007	889,763	1,040,072
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	-	(40,358)	-	-	30,606
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	-	426,419	17,527	784,266	898,353
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	70,520	45,838
22	Performing residential mortgages, of which:	-	2,572	1,480	105,497	63,140
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	2,572	1,480	94,022	61,114

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	2,511	-	-	-	2,134
25	Assets with matching interdependent liabilities					
26	Other Assets:	37,953	23,869	-	4,275	66,631
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	-			577	577
30	NSFR derivative liabilities before deduction of variation margin posted	-			-	-
31	All other assets not included in the above categories	37,953	23,292	534	4,275	66,054
32	Off-balance sheet items		902,340	49,150	403,100	67,729
33	TOTAL RSF					1,211,002
34	NET STABLE FUNDING RATIO					145%

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 30 June 2019 was 10.9% (30 June 2018 – 10.5%)

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

Item	As at 30.06.2019
1 Total consolidated assets as per published financial statements	2,464,266
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	8,049
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)	455,271
7 Other adjustments	(2,723)
8 Leverage ratio exposure	2,924,863

Table 2: Leverage ratio common disclosure template

Item	As at 30.06.2019
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,464,266
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(2,723)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,461,543
Derivative Exposures	
4 Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	2,716
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions	5,333
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)	8,049
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	1,354,589
18 (Adjustments for conversion to credit equivalent amounts)	(899,318)
19 Off-balance sheet items (sum of lines 17 and 18)	455,271
Capital and total exposures	
20 Tier 1 capital	318,915
21 Total exposures (sum of lines 3, 11, 16 and 19)	2,924,863
Leverage Ratio	
22 Basel III leverage ratio (%)	10.9

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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