

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 September 2019



Interim Condensed Financial Information – 30 September 2019

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Presentation of information

This document comprises the Interim Condensed Financial Information – 30 September 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 nine months ended 30 September 2019

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your bank's financial results for the nine months ended 30 September 2019.

Performance Summary

Our year to date performance shows a 3.2% increase in net profit to RO25.8 M compared with RO25.0 M for the same period in 2018, driven primarily by the 3.0% growth in our revenues supported by continuing firm cost control.

Net interest income rose 1.1% to RO45.5 M for the period ended 30 September 2019 compared with RO45.0 M for the same period in 2018, due to improving yields on our wholesale loans and from the benefit earned by investing our surplus liquidity in the Interbank market. This has been partly offset by the rising cost on term deposits. Net fee income fell 12.2% to RO7.9 M for the period ended 30 September 2019 mainly on the back of the non-repeat of some structuring and advisory transactions from our wholesale customers in the same period last year.

Net trading income increased by 22.7% to RO11.9 M compared with RO9.7 M for the same period last year.

A net release of RO1.0 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 RO3.0 M for the same period last year. The change in ECLs was driven by an increase in the wholesale ECLs of RO7.6 M (owing to the favorable movement of the model refresh in the last year) partly offset by a reduction in the Retail ECLs of RO5.6 M (as we saw positive movement in LGD rates within the model).

Operating expenses fell 2.2% to RO36.2 M compared with RO37.0 M for the same period in 2018.

Loans and advances to customers grew by 2.6% to RO1,477.1 M when compared with RO 1,439.7 M as at 30 September 2018.

Customer deposits increased by 2.4% to RO1,988.8 M when compared to the same period last year. Our liquidity remains very strong as evidenced by an Advances to Deposit ratio (ADR) of 74.3% at the end of September 2019.

HBON's Capital Adequacy Ratio (CAR) stood at 18.4% as at 30 September 2019 compared with 18.5% as at 30 September 2018.

Delivering the best customer experience

In the third Quarter, Retail Banking and Wealth Management (RBWM) continued to drive growth in the premium segments of the market, helped by our "Refer a Friend" campaign. The campaign aims to drive acquisition of new Premier & Advance customers by rewarding existing customers who referred their friends. In addition, to capitalize on the summer travel season, RBWM ran a credit card campaign where customers had the chance to win cash prizes. On the digital front, RBWM installed two new offsite ATMs – one in Ghala and another in Al Hail.

Within the Wholesale Banking business, HSBC Bank Oman supported OCTAL to secure their USD 625 M financing facility, in one of the biggest private sector financing deals in Oman of the last decade.

For the 8th consecutive year, HSBC Bank Oman was awarded the Euromoney Best Cash Manager award for corporates. We were also voted the Best Cash Manager for Overall Service in the country in the same survey. These accolades demonstrate our clients trust in our ability to provide them with their payment and liquidity management requirements.

Investing in our people and the community

Aiming to nurture young Omani talent in the Bank and to equip our colleagues with the skills they need to assume future leadership roles, we have launched a 2-year programme titled “Future Leaders” for 130 employees. The programme comprises customisable learning environments and platforms that personalise content based on the employee’s role in the Bank. The programme will give staff a holistic overview of the Bank’s strategy as well as teaching them the communication and creative skills required to succeed in their roles. This offers a bespoke development for 2-years to 55 fresh graduates across the Bank as well as a 1 year programme for other staff within the Retail Bank.

Under our Corporate Sustainability agenda, we have celebrated the conclusion of the “Istidama Program” for SMEs’ Development in association with Sharakah. The programme is one of the Bank’s initiatives that aim to support entrepreneurs to grow sustainable businesses. The 9 selected SMEs have been supported through consultancy by evaluating and assessing their performance over a period of 6 months and by helping them develop sustainability plans for their businesses.

In line with our sustainability strategy and aiming to reduce our carbon footprint, we have started a landmark project that will see half of the electricity consumed at the Bank’s Headquarters generated from its own solar power cells. The installation of 600 kilowatts of solar energy capacity will slash the Bank’s reliance on power generated by fossil fuels, contributing to the Sultanate’s renewables agenda in this regard.

With this project, HSBC Bank Oman will be one of the first corporates and the first local bank in the Sultanate of Oman to utilise solar energy on this scale.

Conclusion

Finally, I would like to express my thanks and appreciation to all of our stakeholders including our customers for their trust in us and in our services, 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 our deepest wishes to His Majesty Sultan Qaboos Bin Said on the occasion of the upcoming 49th National day.

**Sir Sherard Cowper-Coles
Chairman**

Summary of unaudited results for the nine month period ended 30 September 2019

	30 September 2019	30 September 2018	
	RO'000	RO'000	Change (%)
Loans and advances to customers - net	1,477,078	1,439,662	2.6%
Customer deposits	1,988,781	1,942,093	2.4%
Net assets	348,299	333,802	4.3%
* Net assets per share	0.174	0.167	4.2%
	Nine month period ended	Nine month period ended	
	30 September 2019	30 September 2018	Change (%)
	RO'000	RO'000	
Net interest income	45,533	45,016	1.1%
Profit for the period	25,770	24,991	3.1%
** Earnings per share (annualised)	0.017	0.017	-
***Capital adequacy ratio (CAR)	18.41%	18.50%	(0.1)%

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

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

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

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of **HSBC Bank Oman SAOG (the Bank)** as of 30 September 2019, and the related interim condensed statements of comprehensive income for the three month and nine month periods then ended, and interim condensed statements of changes in equity and cash flows for the nine month 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 September 2018 and for condensed interim statements of comprehensive income for the three and nine month periods then ended, statement of changes in equity and cash flows, and related explanatory notes, for the nine month period ended 30 September 2018 has been reviewed by another firm whose report dated 17 October 2018 expressed an unmodified conclusion.

Deloitte Touche

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



Unaudited interim condensed statement of comprehensive income for the nine month period ended 30 September 2019

		Three month period ended 30 September 2019 RO'000	Three month period ended 30 September 2018 RO'000	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
	Notes				
Interest income	3	19,566	17,925	57,034	52,664
Interest expense	4	(4,605)	(2,727)	(11,501)	(7,648)
Net interest income		14,961	15,198	45,533	45,016
Fee income		3,464	3,145	10,976	11,379
Fee expense		(993)	(798)	(3,039)	(2,387)
Net fee income		2,471	2,347	7,937	8,992
Net trading income		3,626	3,787	11,938	9,670
Changes in fair value of financial investments measured at fair value through profit and loss		20	(86)	(59)	(287)
Dividend income		-	-	19	128
Other operating income - net		42	105	613	590
Net operating income before loan impairment charges and other credit risk provisions		21,120	21,351	65,981	64,109
Change in expected credit losses and other credit impairment charges	5	(1,301)	2,032	1,017	3,025
Net operating income		19,819	23,383	66,998	67,134
Employee compensation and benefits		(5,980)	(5,787)	(17,563)	(17,215)
General and administrative expenses	6	(5,359)	(5,022)	(15,760)	(16,884)
Depreciation of property and equipment		(594)	(403)	(1,747)	(1,198)
Amortisation of intangible assets	7	(70)	(571)	(1,108)	(1,714)
Total operating expenses		(12,003)	(11,783)	(36,178)	(37,011)
Profit before tax		7,816	11,600	30,820	30,123
Tax expense		(1,279)	(1,978)	(5,050)	(5,132)
Profit for the period		6,537	9,622	25,770	24,991
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		597	1,559	775	1,477
-Expected credit gain / losses recognised in income statement		25	(44)	32	(229)
-Income tax		(89)	(234)	(116)	(222)
Other comprehensive gain for the period - net of tax		533	1,281	691	1,026
Total comprehensive income for the period		7,070	10,903	26,461	26,017
Earnings per share – basic and diluted	8				
-for the period (RO)		0.003	0.005	0.013	0.012
-annualised (RO)		0.013	0.019	0.017	0.017

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

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

		At 30 September 2019	At 30 September 2018	Audited At 31 December 2018
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		214,498	78,225	270,574
Due from banks		251,059	243,447	132,792
Loans and advances to customers - net	9	1,477,078	1,439,662	1,389,559
Financial investments - FVOCI	10	457,714	526,004	498,986
Financial investments – FVTPL	10	2,109	2,339	2,340
Other assets	11	42,305	29,463	37,488
Intangible assets	12	1,675	1,525	954
Property and equipment	13	23,816	25,515	25,521
Deferred tax assets		1,782	2,063	2,404
Total assets		2,472,036	2,348,243	2,360,618
Liabilities and equity				
Liabilities				
Due to banks		78,507	31,886	37,778
Deposits from customers	14	1,988,781	1,942,093	1,926,125
Other liabilities	15	49,746	34,160	48,095
Current tax liabilities		6,634	6,302	8,179
Deferred tax liabilities		69	-	-
Total liabilities		2,123,737	2,014,441	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)	501	(489)	(190)
Retained earnings		104,751	94,381	97,584
Net equity		348,299	333,802	340,441
Total liabilities and equity		2,472,036	2,348,243	2,360,618
Net assets per share - RO		0.174	0.167	0.170
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		67,788	36,442	47,845
- Guarantees and performance bonds		503,853	557,725	525,074
- Others	16	1,256,328	1,213,812	1,228,767
		1,827,969	1,807,979	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 27 October 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 nine month period ended 30 September 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	-	-	-	24,991	24,991
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	1,026	-	1,026
Total other comprehensive income for the period	-	-	1,026	-	1,026
Total comprehensive income for the period	-	-	1,026	24,991	26,017
Transaction with shareholders, recorded directly in equity					
Dividend for 2017	-	-	-	(11,402)	(11,402)
At 30 September 2018	200,031	39,879	(489)	94,381	333,802
At 1 January 2019	200,031	43,016	(190)	97,584	340,441
Total comprehensive income for the period					
Profit for the period	-	-	-	25,770	25,770
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	691	-	691
Total other comprehensive income for the period	-	-	691	-	691
Total comprehensive income for the period	-	-	691	25,770	26,461
Transaction with shareholders, recorded directly in equity					
Dividend for 2018	-	-	-	(18,603)	(18,603)
At 30 September 2019	200,031	43,016	501	104,751	348,299

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

Unaudited interim condensed statement of cash flows for the nine month period ended 30 September 2019

	Notes	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
Cash flows from operating activities			
Profit before tax		30,820	30,123
Adjustments for:			
- non-cash items included in profit before tax	25(a)	(1,176)	(1,984)
-Change in operating assets	25(b)	(92,080)	(44,385)
-Change in operating liabilities	25(c)	64,289	2,987
-Tax paid		(6,020)	(3,415)
- Retirement benefits paid		(93)	(107)
Net cash used in operating activities		(4,260)	(16,781)
Cash flows from investing activities			
Purchase of financial investments		(1,885,760)	(1,716,157)
Proceeds from maturity of financial investments		1,930,676	1,806,300
Purchase of property, equipment and softwares		(2,041)	(1,315)
Proceeds from sale of property and equipment	13	1,450	930
Net cash generated from investing activities		44,325	89,758
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		21,462	61,575
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)	387,050	289,786

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.

(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 3.62% for the nine month period ended 30 September 2019 (30 September 2018 – 3.28%).

	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
Loans and advances to customers	49,009	46,313
Financial investments	4,057	4,112
Due from banks	3,968	2,213
Others	-	26
	57,034	52,664

4 Interest expense

For the nine month period ended 30 September 2019, the average overall annualised cost of funds was 0.76% (30 September 2018 – 0.50%).

	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
Deposits from customers	(11,258)	(7,371)
Others	(243)	(277)
	(11,501)	(7,648)

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

	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
Loans and advances to customer	724	1,122
Due from banks	5	(11)
Loan commitments and financial guarantees	289	1,664
Other financial assets	31	21
Financial investments at FVOCI	(32)	229
	1,017	3,025

Notes to the unaudited interim condensed financial information (continued)

6 General and administrative expenses

	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
Marketing and advertising*	(1,310)	(1,442)
Premises and equipment	(2,170)	(2,744)
Communications	(420)	(411)
Insurance	(782)	(816)
Other administrative expense	(11,078)	(11,471)
	(15,760)	(16,884)

*Marketing and advertising expenses for the current period include the RO0.9 M of "Mandoos Prize" draw expenses (30 September 2018: RO0.9 M).

7 Amortisation of intangible assets

	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
This represents amortisation of intangible assets as a result of business combination and is accounted for as follows :		
- Core deposits	(733)	(1,319)
- Customer relationships	(219)	(395)
- Softwares	(156)	-
	(1,108)	(1,714)

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:

	Nine month period ended 30 September 2019	Nine month period ended 30 September 2018	Year ended 31 December 2018
Weighted average number of shares in issue ('000)	2,000,313	2,000,313	2,000,313
Net profit for the period / year (RO'000)	25,770	24,991	31,366
Earnings per share – basic and diluted (RO)			
- for the period / year	0.013	0.012	0.016
- annualised	0.017	0.017	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 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
Overdrafts	148,977	67,589	66,181
Credit cards	28,803	27,050	28,631
Loans	1,298,893	1,210,060	1,165,957
Clean import loans	68,141	197,755	191,527
Bills discounted / purchased	8,900	9,596	11,657
Gross loans and advances	1,553,714	1,512,050	1,463,953
Allowances for expected credit losses (ECL)	(35,546)	(34,778)	(35,502)
Reserved interest*	(41,090)	(37,610)	(38,892)
Net loans and advances	1,477,078	1,439,662	1,389,559

* Reserved interest forms part of ECL for the purpose of IFRS

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

	30 September 2019 RO'000	30 September 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	349	(99)	2,452
Net new lending and changes to risk parameters	1,305	1,158	(631)
Assets written off	(1,610)	(4,488)	(4,546)
Others	-	-	20
At 30 September / 31 December	35,546	34,778	35,502
ECL release / (charge) for the period / year	(1,654)	(1,059)	(1,821)
Recoveries	2,378	2,181	1,663
Total ECL income release /(charge) for the period / year	724	1,122	(158)

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

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
Balance at the beginning of the period	38,892	33,409	33,409
Reserved during the period	3,356	5,100	6,389
Released to the statement of comprehensive income	(650)	(362)	(362)
Written off during the period	(508)	(537)	(544)
At 30 September / 31 December	41,090	37,610	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 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
0-5%	1,026,949	1,063,503	1,038,869
5-7%	443,390	337,837	335,924
7-10%	35,767	40,999	41,021
10-13%	15,212	38,486	15,506
More than 13%	32,396	31,225	32,633
	1,553,714	1,512,050	1,463,953

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

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
0-6 months	410,767	439,067	419,694
6-12 months	29,274	14,383	16,734
1-3 years	56,447	187,622	63,461
3-5 years	309,671	151,541	252,634
More than 5 years	670,919	647,049	637,036
	1,477,078	1,439,662	1,389,559

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
Personal and consumer loans	498,700	505,498	499,392
Corporate and commercial			
Import trade	196,876	237,483	212,751
Construction	81,309	66,012	67,251
Manufacturing	220,722	234,927	235,155
Wholesale and retail trade	85,182	71,173	65,179
Electricity, gas, water, transportation and communication	65,074	42,932	41,651
Services	118,875	113,625	101,255
Mining and quarrying	170,038	176,211	175,983
Others	109,209	64,189	65,336
	1,047,285	1,006,552	964,561
Financial Institutions	7,729	-	-
Total gross loans and advances	1,553,714	1,512,050	1,463,953
ECL allowance	(35,546)	(34,778)	(35,502)
Reserved interest	(41,090)	(37,610)	(38,892)
Net loans and advances	1,477,078	1,439,662	1,389,559
Non-performing loans (NPL)	68,734	58,451	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 RO1,436.3 M as of 30 September 2019 (30 September 2018 – RO1,407.3 M and 31 December 2018 – RO1,349.5 M).

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

As of 30 September 2019	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss (charged) / released to profit and loss	(2,300)	1,017	3,317
Provisions required*	36,287	36,902	615
Gross NPL ratio (percentage)	4.42%	4.42%	-
Net NPL ratio (percentage)	0.69%	0.50%	(0.19)%

*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 September 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	1,131,042	15,065	4,046	11,019	1,126,996	139
	Stage 2	334,765	3,498	9,496	(5,998)	325,269	777
Standard	Stage 3	-	-	-	-	-	-
		1,465,807	18,563	13,542	5,021	1,452,265	916
	Stage 1	-	-	-	-	-	-
	Stage 2	18,553	196	1,781	(1,585)	16,772	55
Special mention	Stage 3	620	113	145	(32)	475	17
		19,173	309	1,926	(1,617)	17,247	72
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	5,155	1,240	2,730	(1,490)	2,425	312
		5,155	1,240	2,730	(1,490)	2,425	312
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	134	66	158	(92)	(24)	7
		134	66	158	(92)	(24)	7
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	63,445	16,109	17,190	(1,081)	46,255	39,783
		63,445	16,109	17,190	(1,081)	46,255	39,783
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,499,021	-	763	(763)	1,498,258	-
	Stage 2	126,399	-	593	(593)	125,806	-
	Stage 3	1,048	-	-	-	1,048	-
		1,626,468	-	1,356	(1,356)	1,625,112	-
	Stage 1	2,630,063	15,065	4,809	10,256	2,625,254	139
	Stage 2	479,717	3,694	11,870	(8,176)	467,847	832
	Stage 3	70,402	17,528	20,223	(2,695)	50,179	40,119
Total	Total	3,180,182	36,287	36,902	(615)	3,143,280	41,090

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 September 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	11,626	116	969	(853)	10,657	-
	Stage 3	620	113	145	(32)	475	17
Sub Total		12,246	229	1,114	(885)	11,132	17
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	29,370	8,945	9,858	(913)	19,512	15,354
		29,370	8,945	9,858	(913)	19,512	15,354
Total	Stage 1	-	-	-	-	-	-
	Stage 2	11,626	116	969	(853)	10,657	-
	Stage 3	29,990	9,058	10,003	(945)	19,987	15,371
	Total	41,616	9,174	10,972	(1,798)	30,644	15,371

HSBC Bank Oman S.A.O.G.

Notes to the unaudited interim condensed financial information (continued)

10 Financial investments

Financial investments details are provided as follows:

	Fair value 30 September 2019 RO'000	Fair value 30 September 2018 RO'000	Fair value 31 December 2018 RO'000	Carrying value* 30 September 2019 RO'000	Carrying value 30 September 2018 RO'000	Carrying value 31 December 2018 RO'000	Cost 30 September 2019 RO'000	Cost 30 September 2018 RO'000	Cost 31 December 2018 RO'000
Marketable securities – MSM									
Government bonds	65,338	75,885	64,984	65,338	75,885	64,984	64,869	76,579	65,287
Unquoted and other investments									
Treasury bills	392,126	449,869	433,752	392,126	449,869	433,752	392,136	449,860	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	2,092	2,322	2,323	2,092	2,322	2,323	2,879	3,003	3,004
	394,485	452,458	436,342	394,485	452,458	436,342	395,282	453,130	437,036
Total	459,823	528,343	501,326	459,823	528,343	501,326	460,151	529,709	502,323

*ECL allowance on financial investments amounting to RO0.1 M (30 September 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 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	392,126	449,869	433,752
Government bonds	65,338	75,885	64,984
Other investments	250	250	250
	457,714	526,004	498,986
Financial investments measured at fair value through profit or loss			
Equity investments	2,109	2,339	2,340
	459,823	528,343	501,326

11 Other assets

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
Acceptances	21,115	17,218	24,940
ECL on acceptances	(31)	(47)	(63)
Acceptances (net of ECL)	21,084	17,171	24,877
Derivatives - positive mark-to-market	8,462	9,613	9,738
Prepayments and accrued income	573	1,227	1,172
Right-of-use assets	3,047	-	-
Others	9,139	1,452	1,701
	42,305	29,463	37,488

12 Intangible assets

	30 September 2019 RO'000	30 September 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	2,294	-	-
	18,291	15,997	15,997
Less: amortised	(16,616)	(14,472)	(15,043)
	1,675	1,525	954

13 Property and equipment

RO0.5 M of property and equipment were added during the period (30 September 2018: RO1.3 M).
Property and equipment disposed of during the period was RO4.5 M (30 September 2018: RO3.1 M).

Notes to the unaudited interim condensed financial information (continued)

14 Deposits from customers

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
Deposits details are as follows:			
Current and call	960,743	964,059	942,902
Savings	394,574	410,378	404,860
Time deposits	631,103	565,256	576,159
Others	2,361	2,400	2,204
	1,988,781	1,942,093	1,926,125

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

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
0-6 months	790,372	789,965	756,526
6-12 months	263,083	253,365	278,693
1-3 years	164,110	230,256	229,149
3-5 years	381,890	208,515	207,491
Over 5 years	389,326	459,992	454,266
	1,988,781	1,942,093	1,926,125

The interest rate bands of deposits are as follows:

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
0-2%	1,550,760	1,722,711	1,586,427
2-5%	438,021	219,382	339,698
	1,988,781	1,942,093	1,926,125

15 Other liabilities

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
Derivatives – negative mark-to-market	188	1,275	1,009
Retirement benefit liability	1,324	1,149	1,246
Acceptances	21,115	17,218	24,940
Provisions	241	341	400
ECL on off balance sheet exposure and other commitments	813	989	1,102
Accruals and deferred income	5,773	6,208	6,905
Lease liabilities	2,733	276	-
Others	17,559	6,704	12,493
	49,746	34,160	48,095

Notes to the unaudited interim condensed financial information (continued)

16 Contingent liabilities, commitments and derivatives

	30	30	31
	September	September	December
	2019	2018	2018
	RO'000	RO'000	RO'000
Undrawn unconditionally cancellable commitments*	652,509	516,863	550,495
Undrawn unconditionally non-cancellable commitments	51,873	32,719	33,286
Forward foreign exchange contracts	357,906	552,195	489,446
Interest rate swaps	194,040	112,035	155,540
	<u>1,256,328</u>	<u>1,213,812</u>	<u>1,228,767</u>

*Undrawn unconditionally cancellable commitments of RO109.5 M (31 December 2018: RO103.5 M) are considered as part of loan commitments for IFRS 9.

As at 30 September 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 September 2019			
Assets			
Derivatives	-	8,462	8,462
Financial investments at fair value through other comprehensive income	197,721	259,993	457,714
Financial investments at fair value through profit or loss	-	2,109	2,109
Liabilities			
Derivatives	-	188	188
Deposits from customers	-	198,494	198,494
At 30 September 2018			
Assets			
Derivatives	-	9,613	9,613
Financial investments at fair value through other comprehensive income	287,247	238,757	526,004
Financial investments at fair value through profit or loss	-	2,339	2,339
Liabilities			
Derivatives	-	1,275	1,275
Deposits from customers	-	120,470	120,470
At 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.

HSBC Bank Oman S.A.O.G.

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 September 2019			30 September 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	1,277,260	924,471	352,789	1,231,273	860,430	370,843	1,257,163	846,104	411,059
6-12 months	80,999	288,891	(207,892)	20,676	279,254	(258,578)	29,099	313,431	(284,332)
1-3 years	61,629	164,117	(102,488)	235,358	230,256	5,102	114,114	229,149	(115,035)
3-5 years	343,208	381,890	(38,682)	169,718	208,515	(38,797)	273,604	207,491	66,113
more than 5 years	708,940	712,667	(3,727)	691,218	769,788	(78,570)	686,638	764,443	(77,805)
	2,472,036	2,472,036	-	2,348,243	2,348,243	-	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 September 2019		30 September 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	214,662	(164)	78,309	(84)
Due from banks	251,103	(44)	243,458	(11)
Loans and advances to customers				
-RBWM	497,501	(7,580)	504,488	(9,290)
-Wholesale	1,015,123	(27,966)	969,951	(25,488)
Other assets	21,881	(224)	18,638	(240)
Total gross carrying amount on balance sheet	2,000,270	(35,978)	1,814,844	(35,113)
Loans and other credit related commitments	681,108	(812)	734,566	(989)
Total nominal amount off balance sheet	681,108	(812)	734,566	(989)
	Fair Value RO'000	Memorandum allowance for ECL RO'000	Fair Value RO'000	Memorandum allowance for ECL RO'000
Financial investments at FVOCI	457,714	(112)	526,004	(94)

20 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 September 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 September 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 September 2019	30 September 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 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
30 September 2019	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	362	118,196	118,558
Current, deposit and other accounts	-	2,960	147	14,627	17,734
Letters of credit and guarantees	-	122,957	-	11,757	134,714
Acceptances	-	-	-	2,993	2,993
Due from banks	-	42,524	-	-	42,524
Due to banks*	-	21,925	-	-	21,925
Collateral received	-	130,164	-	-	130,164
For the period ended 30 September 2019					
Net fee income**	-	(583)	-	-	(583)
Other operating expenses	-	(9,419)	(15)	(996)	(10,430)
Purchase of property and equipment	-	-	-	(23)	(23)

*Due to banks includes Vostro balances of RO19.0 M from HSBC affiliates and accrual of RO2.9 M for the expenses payable to HSBC Affiliates as of 30 September 2019.

**Net fee income includes fee expenses of RO0.8 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 September 2018					
Loans and advances	-	-	385	124,484	124,869
Current, deposit and other accounts	-	3,729	161	21,279	25,169
Letters of credit and guarantees	-	94,600	-	8,927	103,527
Acceptances	-	-	-	1,792	1,792
Due from banks	-	53,970	-	-	53,970
Due to banks*	-	23,691	-	-	23,691
Collateral received	-	178,870	-	-	178,870
For the period ended 30 September 2018					
Net fee income**	-	(288)	-	-	(288)
Other operating expenses	-	(9,308)	(16)	(685)	(10,009)

*Due to banks includes Vostro balances of RO17.7 M, Borrowings of RO2.6 M from HSBC affiliates and accrual of RO3.4 M for the expenses payable to HSBC Affiliates as of 30 September 2018.

**Net fee income includes fee expenses of RO0.4 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 September 2018: nil and 31 December 2018: RO5.4 M) from HSBC affiliates. However the customers 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 September 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 September 2018: between 0.2% p.a. and 1.25% p.a.).

Compensation of key management personnel

	Nine month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2018 RO'000
Wages, salaries and other short term benefits	1,199	1,148
Post-employment benefits	352	313
	1,551	1,461

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 September 2019				Total RO'000
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	
Net interest income					
- External	2,716	20,527	14,560	7,730	45,533
- Internal	13,543	2,843	(3,604)	(12,782)	-
	<u>16,259</u>	<u>23,370</u>	<u>10,956</u>	<u>(5,052)</u>	<u>45,533</u>
Net fee income	1,865	3,250	2,933	(111)	7,937
Net trading income	863	1,022	2,751	7,302	11,938
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(59)	(59)
Other operating income	(13)	(7)	34	618	632
Total operating income	<u>18,974</u>	<u>27,635</u>	<u>16,674</u>	<u>2,698</u>	<u>65,981</u>
Change in expected credit losses and other credit impairment charges	(1,408)	2,557	(101)	(31)	1,017
Net operating income	<u>17,566</u>	<u>30,192</u>	<u>16,573</u>	<u>2,667</u>	<u>66,998</u>
Total operating expenses	<u>(8,966)</u>	<u>(21,635)</u>	<u>(4,700)</u>	<u>(877)</u>	<u>(36,178)</u>
Profit before tax	<u>8,600</u>	<u>8,557</u>	<u>11,873</u>	<u>1,790</u>	<u>30,820</u>
Reportable segment assets	<u>540,136</u>	<u>490,992</u>	<u>474,468</u>	<u>966,440</u>	<u>2,472,036</u>
Reportable segment liabilities	<u>1,122,555</u>	<u>579,490</u>	<u>387,176</u>	<u>34,516</u>	<u>2,123,737</u>

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

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 September 2018: 12.875% and 31 December 2018: 12.875%) in accordance with CBO stipulated guidelines.

	30 September 2019 RO'000	30 September 2018 RO'000	31 December 2018 RO'000
CET 1 / Tier 1 capital	318,529	305,921	318,056
Tier 2 capital (T2)	11,932	18,307	15,438
Total regulatory capital	330,461	324,228	333,494
Risk-weighted assets	1,795,153	1,752,465	1,718,549
CET 1 / Tier 1 capital ratio	17.74%	17.46%	18.51%
Total capital ratio	18.41%	18.50%	19.41%

25 Cash and cash equivalents

	Notes	30 September 2019 RO'000	30 September 2018 RO'000
25(a) Non-cash items included in profit before tax			
Changes in fair value of financial investments measured at fair value through profit and loss	10	59	287
Net gain on sale of financial investment		-	10
Change in expected credit losses and other credit impairment charges	5	(1,017)	(3,025)
Depreciation of property and equipment		1,747	1,198
Amortisation of intangible assets	7	1,108	1,714
Amortisation of discount on financial investment		(2,300)	(2,377)
Employer's current service cost with interest		171	255
Finance lease charge		-	44
Effect of currency translation		(397)	-
Gain on disposal of property and equipment		(547)	(90)
		(1,176)	(1,984)
25(b) Change in operating assets		30 September 2019 RO'000	30 September 2018 RO'000
Change in loans and advances to customers-net		(86,502)	(43,649)
Change in other assets		(5,578)	(736)
		(92,080)	(44,385)
25(c) Change in operating liabilities		30 September 2019 RO'000	30 September 2018 RO'000
Change in deposits from customers		62,656	10,043
Change in other liabilities		1,633	(7,056)
		64,289	2,987

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 September 2019 RO'000	30 September 2018 RO'000
Unaudited interim condensed statement of financial position comprise:		
Cash and balances with central bank	214,498	78,225
Due from banks	251,059	243,447
Due to banks	(78,507)	(31,886)
	387,050	289,786

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 September 2018: 90%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 30 September 2019 was 218% (30 September 2018 – 308%)

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

	30 September 2019	
	Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets		
1 Total High quality liquid assets (HQLA)		606,771
Cash outflows		
Retail deposits and deposits from small business customers, of		
2 which:	577,013	43,864
3 - Stable deposits	276,757	13,838
4 - Less stable deposits	300,256	30,026
5 Unsecured wholesale funding, of which:	1,035,640	452,319
- Operational deposits (all counterparties) and deposits in		
6 networks of cooperative banks	-	-
7 - Non-operational deposits (all counterparties)	1,035,640	452,319
8 - Unsecured debt	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which	55,877	5,443
- Outflows related to derivative exposures and other		
11 collateral requirements	-	-
12 - Outflows related to loss of funding on debt products	-	-
13 - Credit and liquidity facilities	55,877	5,443
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	753,141	37,657
16 Total cash outflows (2+5+10+15)		539,282
Cash inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	276,384	263,714
19 Other cash inflows	-	-
20 Total cash inflows (17+18+19)	276,384	263,714
21 Total HQLA		606,771
22 Total net cash outflows (16-20)		275,569
23 Liquidity coverage ratio (21/22)		220%

*simple average of daily observations over the last three month (Jul – Sep 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 September 2019 was 139% (30 September 2018 – 131%).

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

Available Stable funding (ASF) items		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	360,228	-	-	-	360,228
2	Regulatory capital	333,960	-	-	-	333,960
3	Other capital instruments	26,268	-	-	-	26,268
4	Retail deposits and deposits from small business customers	546,083	17,154	5,350	8,314	533,858
5	Stable deposits	275,973	253	79	-	262,491
6	Less stable deposits	270,110	16,901	5,271	8,314	271,367
7	Wholesale funding:	898,034	287,094	50,422	254,839	872,614
8	Operational deposits	78,507	-	-	-	39,254
9	Other wholesale funding	819,527	287,094	50,422	254,839	833,360
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	38,971	21,068	41	7	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	38,971	21,068	41	7	-
14	Total ASF					1,766,700
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)					22,873
16	Deposits held at other financial institutions for operational purposes	51,711	-	-	-	25,856
17	Performing loans and securities:	2,359	679,655	22,637	900,712	1,081,071
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	-	186,803	-	-	29,909
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	-	490,037	21,288	794,212	940,946
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	68,779	44,706
22	Performing residential mortgages, of which:	-	2,815	1,349	106,500	63,504
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	2,815	1,349	94,496	61,422

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	2,359	-	-	-	2,005
25	Assets with matching interdependent liabilities					
26	Other Assets:	38,550	30,494		7,928	77,536
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	-			8274	8274
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	38,550	22,220	564	7,928	69,262
32	Off-balance sheet items		788,604	54,498	424,843	63,397
33	TOTAL RSF					1,270,733
34	NET STABLE FUNDING RATIO					139%

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 September 2019 was 10.9% (30 September 2018 – 11.1%)

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

Item	As at 30.09.2019
1 Total consolidated assets as per published financial statements	2,472,036
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	12,715
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)	437,002
7 Other adjustments	(3,457)
8 Leverage ratio exposure	2,918,296

Table 2: Leverage ratio common disclosure template

Item	As at 30.09.2019
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,472,036
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(3,457)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,468,579
Derivative Exposures	
4 Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	8,462
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions	4,253
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)	12,715
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	1,276,023
18 (Adjustments for conversion to credit equivalent amounts)	(839,021)
19 Off-balance sheet items (sum of lines 17 and 18)	437,002
Capital and total exposures	
20 Tier 1 capital	318,529
21 Total exposures (sum of lines 3, 11, 16 and 19)	2,918,296
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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