

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

31 March 2020



Interim Condensed Financial Information – 31 March 2020

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Presentation of information

This document comprises the Interim Condensed Financial Information – 31 March 2020 for HSBC Bank Oman S.A.O.G. ('HBON') ('the Bank'). It contains Unaudited Interim Condensed Financial Information, together with the Board of Directors' Report, the Auditor's review report and the Summary of Unaudited Results.

Board of Directors' Report for the three months ended 31 March 2020

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present your Bank's first Quarter financial results for 2020.

Performance Summary

Our first Quarter performance has been disappointing and shows a net loss of RO4.5 M compared with a net profit of RO8.1 M for the same period in 2019. This has primarily been driven by the increase in the Expected Credit Losses ('ECL') and other credit impairment charges which reflect the significant deterioration in the macro-economic environment as a result of the impact of Covid-19 and the drop in the oil price. It is unclear how this will evolve through 2020 and how extensive the impact of these twin economic headwinds on the economy could become.

Net interest income was down 8.4% to RO14.1 M for the period ended 31 March 2020 compared with RO15.4 M for the same period in 2019. Tight liquidity in the market is pushing up the cost of deposits while the fall in USD LIBOR results in falling floating rate interest income. This was partly offset by higher interest income from our growth in customer loans. Net fee income stood at RO2.6 M for the period ended 31 March 2020 compared with RO2.8 M for the same period in 2019.

Net Trading income was down 35.0% to RO2.6 M compared with RO4.0 M for the same period last year, owing to lower income from FX swap transactions.

A net charge of RO11.3 M has been reported for the change in the Bank's ECL and other credit impairment charges compared with a net release of RO0.1 M for the same period last year. Wholesale's ECL was up RO9.7 M while Retail's ECL was up RO1.7 M. As explained above, the incremental ECL largely reflected the judgemental overlay provisions recorded to account for the economic impact of the Covid-19 outbreak.

Operating expenses fell 2.4% to RO12.2 M compared with RO12.5 M for the same period in 2019.

Loans and advances to customers continued to grow with Quarter end balances up 17.9% to RO1,521.6 M compared with RO1,291.1 M as at 31 March 2019.

Customer deposits increased by 8.5% to RO2,073.7 M compared to the same period last year. Our liquidity remains strong in the market, as evidenced by an Advances to Deposit ratio (ADR) of 73.4% at the end of March 2020.

HBON's Capital Adequacy Ratio (CAR) stood at 17.6% as at 31 March 2020 compared with 19.9% as at 31 March 2019.

Delivering the best customer experience

Retail Banking and Wealth Management ('RBWM') business had a solid start to the year from the sales momentum perspective. A combination of a marketing campaign rewarding new Premier & Advance customers along with roadshows to energise the frontline has resulted in significantly higher new-to-bank customers compared to the same time last year. The launch of the first cash-back credit card late last year has also contributed to higher credit card acquisition during the Quarter. In addition to this, RBWM also launched a fresh Mandoos scheme which projects over 6,500 winners through 2020.

This was supplemented by the launch of "Step-up" savings account campaign where customers receive higher interest rates for incremental balances in their interest bearing savings accounts during the period. On the digital front, a new mobile App was launched in the Quarter and this was downloaded more than 10k times in the first three weeks following the launch.

In continuation of our customer experience promise, we also rolled out a fresh customer experience improvement program covering the Bank's entire staff population which will help improve the customer centricity of the frontline staff all the way to the back-end processing staff.

In the wholesale businesses, many of our remaining high volume manually transacting Trade Finance clients have been on-boarded to HSBC's Internet Trade Services platform in Q1. This has boosted our digital penetration for Trade transactions from 43% to 60%. Further increases in this penetration rate are expected.

Our COVID-19 relief measures

We are monitoring the Covid-19 situation very closely and liaising with government and public health officials. Our priority at this time is the wellbeing of our customers and staff.

From a business perspective, we are working hard to maintain the support and services provided to our customers. The size and structure of HSBC allows us to support our clients from multiple sites.

We have well practiced contingency measures that ensure critical processes continue to be maintained. These include split-site operations, work transfer and extensive homeworking capabilities. We have also raised awareness among our employees on the need for good personal hygiene.

We have encouraged our customers to use our digital channels first and visit our branches only where necessary. Through our digital channels, our customers can continue to manage their accounts and perform banking transactions at home using Online Banking, the HSBC Mobile Banking App, or Phone Banking.

For our corporate clients, the implementation of Message Center, a self-service tool within HSBCnet, has helped our corporate clients activate additional value-added services on HSBCnet, including Internet Trade Services (ITS) and Payment entitlements, without the need to send physical documents to the Bank.

We have demonstrated the resilience of our Trade and Payments processing capabilities during this period, with no recorded impact to Customer SLAs for our Trade transactions across Wholesale Banking.

Digital Webinars were conducted by HSBC for wholesale clients across the region, with a total of 45 clients from Oman attending the 2 digital webinars.

Fulfilling our social commitment towards the society during this time. And in coordination with charitable organizations like Dar Al Atta and Oman Charitable Organization, we are making contributions to a range of projects in the Sultanate to help underprivileged families who have been impacted by COVID-19. The disbursements will help in providing relief and recovery to individuals and families impacted by COVID-19, as well as hospital workers helping combat the virus. We have also supported the Directorate General of Health in Muscat in conducting deep cleaning and disinfection of Al Amirat and Boushar Health Centers.

This follows HSBC Group's recent announcement of a USD25m COVID-19 charitable fund to support the international medical response, protect vulnerable people and ensure food security.

Conclusion

We would like to express our thanks and appreciation to all the government authorities who are working relentlessly, steered by the Supreme Committee of COVID-19, to ensure that we overcome this crisis. We would like to thank the Central Bank of Oman for their continuous support to the banking sector.

It is with regret that we said farewell in April to His Excellency Dr. Omar bin Abdul Muniem Al Zawawi who was so involved in the Banking sector for many years with Oman International Bank and then latterly HSBC Bank Oman.

Finally we must acknowledge the succession of His Majesty Haitham bin Tariq following the death of His Majesty, the Late Sultan Qaboos Bin Said for whom we had the privilege of serving over the length of His Late Majesty's reign. We look forward to continuing to support the Sultanate under His Majesty Sultan Haitham's wise leadership.

We at HSBC Bank Oman are as committed as we have always been to contribute to the development of the banking sector in Oman and to support the government in its efforts to revive the Omani economy.

Sir Sherard Cowper-Coles
Chairman

Summary of unaudited results for the three month period ended 31 March 2020

	31 March 2020	31 March 2019	
	RO'000	RO'000	Change (%)
Loans and advances to customers - net	1,521,640	1,291,143	17.9%
Customer deposits	2,073,748	1,912,041	8.5%
Net assets	330,665	329,947	0.2%
* Net assets per share	0.165	0.165	-
	Three month period ended	Three month period ended	
	31 March 2020	31 March 2019	Change (%)
	RO'000	RO'000	
Net interest income	14,067	15,444	(8.9)%
(Loss) / profit for the period	(4,475)	8,128	(155.1)%
** Earnings per share (annualised)	(0.009)	0.016	(156.3)%
***Capital adequacy ratio (CAR)	17.63%	19.91%	(2.28)%

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

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

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

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of **HSBC Bank Oman SAOG (the Bank)** as of 31 March 2020, and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the three months period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting and the minimum disclosure requirements issued by the Capital Market Authority (“CMA”). Our responsibility is to express a conclusion on these interim condensed financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information performed by the Independent Auditor of the entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting and the minimum disclosure requirements issued by the Capital Market Authority (“CMA”).

Deloitte • Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
30 April 2020



Unaudited interim condensed statement of comprehensive income for the three month period ended 31 March 2020

	Notes	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
Interest income	4	19,151	18,321
Interest expense	5	(5,084)	(2,877)
Net interest income		14,067	15,444
Fee income		3,408	3,910
Fee expense		(837)	(1,087)
Net fee income		2,571	2,823
Net trading income		2,615	3,986
Changes in fair value of financial investments measured at fair value through profit and loss		(214)	(106)
Other operating income – net		(9)	26
Net operating income before loan impairment charges and other credit risk provisions		19,030	22,173
Change in expected credit losses and other credit impairment Charges	6	(11,330)	85
Net operating income		7,700	22,258
Employee compensation and benefits		(5,752)	(5,799)
General and administrative expenses	7	(5,558)	(5,490)
Depreciation of property and equipment		(613)	(589)
Amortisation of intangible assets	8	(252)	(600)
Total operating expenses		(12,175)	(12,478)
(Loss) / profit before tax		(4,475)	9,780
Tax expense		-	(1,652)
(Loss) / profit for the period		(4,475)	8,128
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)		639	(53)
-Expected credit losses recognised in income statement		8	26
-Income tax		(96)	8
Other comprehensive income / (loss) for the period - net of tax		551	(19)
Total comprehensive (loss) / income for the period		(3,924)	8,109
Earnings per share – basic and diluted	9		
-for the period (RO)		(0.002)	0.004
-annualised (RO)		(0.009)	0.016

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

Unaudited interim condensed statement of financial position as at 31 March 2020

		At 31 March 2020	At 31 March 2019	Audited At 31 December 2019
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		210,151	181,963	281,186
Due from banks		221,498	189,363	205,595
Loans and advances to customers - net	10	1,521,640	1,291,143	1,502,734
Financial investments	11	496,553	623,466	488,085
Other assets	12	65,779	41,250	45,099
Intangible assets	13	1,471	830	1,572
Property and equipment	14	23,982	25,114	23,648
Deferred tax assets		1,982	1,891	2,078
Total assets		2,543,056	2,355,020	2,549,997
Liabilities and equity				
Liabilities				
Due to banks		67,175	36,910	54,754
Deposits from customers	15	2,073,748	1,912,041	2,071,457
Other liabilities	16	69,322	72,829	64,407
Current tax liabilities		2,146	3,293	7,387
Total liabilities		2,212,391	2,025,073	2,198,005
Equity				
Share capital	21	200,031	200,031	200,031
Legal reserve	22(a)	45,944	43,016	45,944
Fair value through other comprehensive income (FVOCI) reserve	22(b)	1,168	(209)	617
Retained earnings		83,522	87,109	105,400
Net equity		330,665	329,947	351,992
Total liabilities and equity		2,543,056	2,355,020	2,549,997
Net assets per share - RO		0.165	0.165	0.176
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		77,700	65,822	97,014
- Guarantees and performance bonds		536,347	533,611	535,007
- Others	17	1,282,469	1,372,478	1,093,526
		1,896,516	1,971,911	1,725,547

The interim condensed financial information were authorised for issue on 28 April 2020 in accordance with the resolution of the Board of Directors.

Sir Sherard Cowper-Coles
 Chairman

Andrew Long
 Chief Executive Officer

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

Unaudited interim condensed statement of changes in equity for the three month period ended 31 March 2020

	Share capital RO'000	Legal reserve RO'000	FVOCI reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2019	200,031	43,016	(190)	97,584	340,441
Total comprehensive income for the period					
Profit for the period	-	-	-	8,128	8,128
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(19)	-	(19)
Total other comprehensive loss for the period	-	-	(19)	-	(19)
Total comprehensive income for the period	-	-	(19)	8,128	8,109
Transaction with shareholders, recorded directly in equity					
Dividend for 2018	-	-	-	(18,603)	(18,603)
At 31 March 2019	200,031	43,016	(209)	87,109	329,947
At 1 January 2020	200,031	45,944	617	105,400	351,992
Total comprehensive income for the period					
Loss for the period	-	-	-	(4,475)	(4,475)
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	551	-	551
Total other comprehensive income for the period	-	-	551	-	551
Total comprehensive loss for the period			551	(4,475)	(3,924)
Transaction with shareholders, recorded directly in equity					
Dividend for 2019	-	-	-	(17,403)	(17,403)
At 31 March 2020	200,031	45,944	1,168	83,522	330,665

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

Unaudited interim condensed statement of cash flows for the three month period ended 31 March 2020

	Notes	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
Cash flows from operating activities			
(Loss) / profit before tax		(4,475)	9,780
Adjustments for:			
- non-cash items included in profit before tax	26(a)	12,366	1,388
-Change in operating assets	26(b)	(51,396)	94,498
-Change in operating liabilities	26(c)	7,203	(8,025)
-Tax paid		(5,241)	(6,017)
- Retirement benefits paid		-	(38)
Net cash (used in) / generated from operating activities		(41,543)	91,586
Cash flows from investing activities			
Purchase of financial investments		(20,069)	(29,573)
Proceeds from maturity of financial investments		25,023	47
Purchase of property and equipment	14	(650)	(418)
Net cash generated from / (used in) investing activities		4,304	(29,944)
Cash flows from financing activities			
Dividends paid		(17,403)	-
Net change in cash and cash equivalents		(54,642)	61,642
Cash and cash equivalents at the beginning of the period		797,388	794,391
Cash and cash equivalents at the end of the period	26(d)	742,746	856,033

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 the Sultanate of Oman and the applicable regulations of the Central Bank of Oman ("CBO").

The interim condensed financial information should be read in conjunction with the audited financial statements of the Bank as at and for the year ended 31 December 2019 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 2019.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020. None of these are expected to have a significant effect on the interim condensed financial information of the Bank.

(f) Segment analysis

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

Products and services

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

- Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking needs, consumer finance and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products and financial planning services).
- Commercial Banking ('CMB') customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally. CMB support customers with tailored financial products and services to allow them to operate efficiently and grow. Services provided include working capital, term loans, payment services and international trade facilitation, as well as expertise in access to financial markets.
- Global Banking and Markets ('GB&M') provides tailored financial solutions to government, corporate and institutional clients. The client focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; and principal investment activities.
- Corporate Centre comprises Central Treasury, including Balance Sheet Management ('BSM') and central stewardship costs that support our businesses.

2.2 Accounting policies

The accounting policies applied by the Bank in this interim condensed financial information are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2019.

Notes to the unaudited interim condensed financial information (continued)

3 Covid-19 and the drop in the oil price

The outbreak of Covid-19 has had, and continues to have, a material impact on businesses around the world, including in the Sultanate of Oman, and the economic environments in which they operate. The Bank has invoked the business continuity plan to ensure the safety and well-being of the staff, as well as our ability to support our customers and maintain our business operations. It remains unclear how the economic and social environment will evolve through 2020 and we continue to monitor the situation closely.

The Covid-19 pandemic has been accompanied by the drop in the Oil price, a major driver of the economy of the Sultanate. Loss of oil revenues, tourism revenues and disruption to supply chains has resulted in a weakening outlook for the macro-economic environment.

The Central Bank of Oman ('CBO') have initiated a series of measures, in conjunction with other Government programmes, to support the ability of banks to supply credit to businesses and households through this period of economic disruption.

The actions taken by the Government of Oman and the CBO provide an indication of the potential severity of the downturn and the post-recovery environment. One immediate financial impact of the current economic dislocation will be an increase in expected credit losses and other credit impairment charges ('ECLs') driven by a change in the economic scenarios used to calculate HBON's ECLs. The combination of the COVID-19 outbreak, and the oil price drop is expecting to lead to a weakening in GDP, a key input used for calculating HBON's ECLs, while the probability of a more adverse economic scenario for at least the short term is higher than at 31 December 2019.

4 Interest income

Interest bearing assets earned interest at an overall annualised rate of 3.45% for the three month period ended 31 March 2020 (31 March 2019 – 3.55%).

	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
Loans and advances to customers	17,116	15,578
Financial investments	1,293	1,354
Due from banks	730	1,389
Others	12	-
	19,151	18,321

Notes to the unaudited interim condensed financial information (continued)

5 Interest expense

For the three month period ended 31 March 2020, the average overall annualised cost of funds was 0.95% (31 March 2019 – 0.59%).

	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
Deposits from customers	(5,031)	(2,792)
Due to banks	(43)	-
Others	(10)	(85)
	(5,084)	(2,877)

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

	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
- loans and advances to customer	(10,837)	263
- due from banks	14	7
- loan commitment and guarantees	(492)	(202)
- other financial assets	(7)	43
- financial investments at FVOCI	(8)	(26)
	(11,330)	85

7 General and administrative expenses

	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
Marketing and advertising*	(411)	(426)
Premises and equipment	(680)	(746)
Communications	(100)	(148)
Insurance	(285)	(257)
Other administrative expense	(4,082)	(3,913)
	(5,558)	(5,490)

*Marketing and advertising expenses for the current period include the RO 0.3 M of "Mandoos Prize" draw expenses (31 March 2019: RO 0.3 M).

Notes to the unaudited interim condensed financial information (continued)

8 Amortisation of intangible assets

	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
This represents amortisation of intangible assets as a result of business combination and is accounted for as follows :		
- Core deposits	-	(440)
- Customer relationships	-	(131)
- Softwares	(252)	(29)
	(252)	(600)

9 Earnings per share – basic and diluted

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

	Three month period ended 31 March 2020	Three month period ended 31 March 2019	Year ended 31 December 2019
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Net (loss) / profit for the period / year (RO'000)	(4,475)	8,128	29,284
Earnings per share – basic and diluted (RO)			
- for the period / year	(0.002)	0.004	0.015
- annualised	(0.009)	0.016	0.015

10 Loans and advances to customers - net

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

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Overdrafts	187,193	75,895	172,654
Credit cards	28,904	28,583	33,720
Loans	1,282,351	1,112,066	1,280,726
Clean import loans	106,262	131,088	87,338
Bills discounted / purchased	9,124	18,414	9,024
Gross loans and advances	1,613,834	1,366,046	1,583,462
ECL Allowances	(49,627)	(35,182)	(38,776)
Reserved interest*	(42,567)	(39,721)	(41,952)
Net loans and advances	1,521,640	1,291,143	1,502,734

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

Notes to the unaudited interim condensed financial information (continued)

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

	31 March 2020	31 March 2019	31 December 2019
	RO'000	RO'000	RO'000
At 1 January	38,776	35,502	35,502
Net remeasurement of ECL arising from transfer of stage	1,024	(65)	829
Net new lending and changes to risk parameters	10,646	791	4,118
Assets written off	(819)	(1,046)	(1,673)
At 31 March / 31 December	49,627	35,182	38,776
ECL charge for the period / year	(11,670)	(726)	(4,947)
Recoveries	833	989	3,216
Total ECL (charge) / release for the period / year	(10,837)	263	(1,731)

Impact of Covid-19 and drop in the oil price on allowances for ECLs:

The estimated impact of Covid-19 was incorporated in the ECL through additional scenario analysis, which considered differing severity and duration assumptions relating to the global pandemic.

The overall impact of the Covid-19 additional scenarios and other related judgmental overlays on the ECL is shown below:

	RO'000	31 March 2020	RO'000	RO'000	31 March 2019	31 December 2019
	Consensus	Covid-19 + oil	RO'000	Allowances	RO'000	RO'000
	probability	price additional	for ECL	for ECL	Allowances for	Allowances for
	weighted	scenarios and		ECLs	ECLs	ECLs
	ECL¹	ECL overlays				
Retail	7,977	1,825	9,802		9,398	7,980
Wholesale	36,941	6,533	43,474		27,615	33,952
	44,918	8,358	53,276		37,013	41,932

Explanation of the 'Consensus Economic Scenarios' approach is included in note 30.3 of the 2019 Annual Report and Accounts.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described under Risk management section (note 30) of the Annual Report and Accounts 2019. There have been no significant changes during the three months' period ended 31 March 2020.

Description of economic scenarios

The economic assumptions presented in this section have been formed internally specifically for the purpose of calculating HBON's ECLs.

Economic scenarios incorporating the economic impacts of Covid-19 and the current oil price

Given the rapidly changing economic impact, including the initiation of substantial and substantive relief actions and support measures from the Government of Oman and the CBO, the management has made various judgements to best reflect the range of outcomes at the reporting date. Three internally generated and probability weighted economic scenarios (mild, moderate and severe - based on the duration of global restrictions across various markets, fiscal and policy responses, oil price volatility and unemployment) have been generated. These scenarios reflect macroeconomic forecasts under different levels of severity and differing durations of the pandemic.

The scenarios used for the purpose of calculating ECL at 31 March 2020 replaced all previously used consensus economic scenarios.

Notes to the unaudited interim condensed financial information (continued)

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

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Balance at the beginning of the period/ year	41,952	38,892	38,892
Reserved during the period/ year	783	1,078	4,356
Released to the statement of comprehensive income	(104)	(163)	(711)
Written off during the period/ year	(64)	(86)	(585)
Balance at the end of the period/ year	42,567	39,721	41,952

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

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
0-5%	1,147,802	872,525	1,087,850
5-7%	398,135	407,461	409,659
7-10%	32,146	38,301	34,424
10-13%	3,300	15,257	15,460
More than 13%	32,451	32,502	36,069
	1,613,834	1,366,046	1,583,462

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

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
0-6 months	463,425	336,762	437,591
6-12 months	22,280	18,274	30,081
1-3 years	77,092	52,617	53,582
3-5 years	305,597	243,379	324,718
More than 5 years	653,246	640,111	656,762
	1,521,640	1,291,143	1,502,734

Notes to the unaudited interim condensed financial information (continued)

Concentration of loans and advances:

Loans and advances to customers by industry sector

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Personal and consumer loans	494,143	494,331	494,310
Corporate and commercial			
Import trade	199,589	184,619	201,678
Construction	91,537	56,216	89,122
Manufacturing	221,956	213,579	206,833
Wholesale and retail trade	80,914	33,028	79,073
Electricity, gas, water, transportation and communication	96,278	20,278	85,811
Services	116,195	135,753	116,860
Mining and quarrying	165,078	172,081	169,153
Others	140,422	48,424	132,879
	1,111,969	863,978	1,081,409
Financial Institutions	7,722	7,737	7,743
Total gross loans and advances	1,613,834	1,366,046	1,583,462
ECL Allowances	(49,627)	(35,182)	(38,776)
Reserved interest	(42,567)	(39,721)	(41,952)
Net loans and advances	1,521,640	1,291,143	1,502,734
Non-performing loans (NPL)	77,358	64,113	70,767

The estimated fair value of loans and advances is RO1,481.2 M as of 31 March 2020 (31 March 2019 – RO1,217.8 M and 31 December 2019 – RO1,464.2 M).

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

As of 31 March 2020	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss (charged) / released to profit and loss account	(3,504)	(11,330)	(7,826)
Provisions required*	40,540	53,276	12,736
Gross NPL ratio (percentage)	4.79%	4.79%	-
Net NPL ratio (percentage)	0.95%	0.76%	(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 31 March 2020

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	879,775	12,465	6,331	6,134	873,444	117
	Stage 2	633,261	6,474	17,005	(10,531)	616,256	911
Standard	Stage 3	-	-	-	-	-	-
		1,513,036	18,939	23,336	(4,397)	1,489,700	1,028
	Stage 1	-	-	-	-	-	-
	Stage 2	22,876	236	2,018	(1,782)	20,858	33
Special mention	Stage 3	564	105	124	(19)	440	19
		23,440	341	2,142	(1,801)	21,298	52
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	8,345	2,067	4,592	(2,525)	3,753	216
		8,345	2,067	4,592	(2,525)	3,753	216
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	493	235	293	(58)	200	25
		493	235	293	(58)	200	25
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	68,520	18,958	19,264	(306)	49,256	41,246
		68,520	18,958	19,264	(306)	49,256	41,246
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,434,825	-	973	(973)	1,433,852	-
	Stage 2	243,136	-	2,038	(2,038)	241,098	-
	Stage 3	1,071	-	638	(638)	433	-
		1,679,032	-	3,649	(3,649)	1,675,383	-
	Stage 1	2,314,600	12,465	7,304	5,161	2,307,296	117
	Stage 2	899,273	6,710	21,061	(14,351)	878,212	944
	Stage 3	78,993	21,365	24,911	(3,546)	54,082	41,506
Total	Total	3,292,866	40,540	53,276	(12,736)	3,239,590	42,567

Notes to the unaudited interim condensed financial information (continued)

Restructured loans and advances (as per CBO illustrative disclosure) as of 31 March 2020

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net carrying amount RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	36,468	365	2,926	(2,561)	33,542	-
	Stage 3	564	105	124	(19)	440	19
Sub Total		37,032	470	3,050	(2,580)	33,982	19
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	29,381	8,891	10,059	(1,168)	19,322	15,371
		29,381	8,891	10,059	(1,168)	19,322	15,371
Total	Stage 1	-	-	-	-	-	-
	Stage 2	36,468	365	2,926	(2,561)	33,542	-
	Stage 3	29,945	8,996	10,183	(1,187)	19,762	15,390
	Total	66,413	9,361	13,109	(3,748)	53,304	15,390

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Notes to the unaudited interim condensed financial information (continued)

11 Financial investments

Financial investments details are provided as follows:

	Fair value	Fair value	Fair value	Carrying	Carrying	Carrying	Cost	Cost	Cost
	31 March	31 March	31 December	value*	value	value	31 March	31 March	31 December
	2020	2019	2019	2020	2019	2019	2020	2019	2019
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Marketable securities – MSM									
Government bonds	86,122	64,647	65,599	86,122	64,647	65,599	84,970	65,011	64,982
Unquoted and other investments									
Treasury bills	408,261	556,336	420,101	408,261	556,336	420,101	377,371	556,340	420,107
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	1,903	2,216	2,118	1,903	2,216	2,118	2,879	3,003	2,879
	410,431	558,819	422,486	410,431	558,819	422,486	380,517	559,610	423,253
Total	496,553	623,466	488,085	496,553	623,466	488,085	465,487	624,621	488,235

*ECL allowance on financial investments amounting to RO0.1 M (31 March 2019: RO0.1 M and 31 December 2019: RO0.1 M) has been recorded in FVOCI reserve

Notes to the unaudited interim condensed financial information (continued)

Carrying amount of financial investments

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	408,261	556,336	420,101
Government bonds	86,122	64,647	65,599
Other investments	250	250	250
	494,633	621,233	485,950
Financial investments measured at fair value through profit or loss			
Equity investments	1,920	2,233	2,135
	496,553	623,466	488,085

12 Other assets

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Acceptances	35,590	20,754	34,282
ECL on acceptances	(77)	(45)	(52)
Acceptances (net of ECL)	35,513	20,709	34,230
Derivatives - positive mark-to-market	12,843	5,961	2,789
Prepayments and accrued income	819	1,426	808
Right-of-use assets	2,899	3,713	3,436
Others	13,705	9,441	3,836
	65,779	41,250	45,099

13 Intangible assets

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Core deposits	-	12,306	12,306
Customer relationships	-	3,691	3,691
Softwares	2,418	940	2,294
	2,418	16,937	18,291
Less: amortised	(947)	(16,107)	(16,719)
	1,471	830	1,572

14 Property and equipment

RO0.7 M of property and equipment were added during the period (31 March 2019: RO0.4 M). Property and equipment disposed of during the period was RO0.4 M (31 March 2019: 0.1 M).

Notes to the unaudited interim condensed financial information (continued)

15 Deposits from customers

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Deposits details are as follows:			
Current and call	1,109,150	1,139,686	978,775
Savings	403,160	409,718	392,825
Time deposits	558,156	360,288	697,179
Others	3,282	2,349	2,678
	2,073,748	1,912,041	2,071,457

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

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
0-6 months	757,371	826,251	798,907
6-12 months	328,454	320,593	305,221
1-3 years	213,546	159,642	217,706
3-5 years	367,546	155,285	369,953
Over 5 years	406,917	450,270	379,670
	2,073,748	1,912,041	2,071,457

The interest rate bands of deposits are as follows:

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
0-2%	1,585,987	1,733,222	1,571,699
2-5%	487,761	178,819	499,758
	2,073,748	1,912,041	2,071,457

16 Other liabilities

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Derivatives – negative mark-to-market	1,512	90	1,023
Retirement benefit liability	1,374	1,293	1,309
Acceptances	35,590	20,754	34,282
Provisions	539	251	219
ECL on off balance sheet exposure and other commitments	3,245	1,305	2,754
Accruals and deferred income	3,208	5,134	5,525
Lease liabilities	2,388	3,151	2,772
Dividend payable	-	18,603	-
Others	21,466	22,248	16,523
	69,322	72,829	64,407

Notes to the unaudited interim condensed financial information (continued)

17 Contingent liabilities, commitments and derivatives

	31 March 2020 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
Undrawn unconditionally cancellable commitments*	550,778	661,400	606,574
Undrawn unconditionally non-cancellable commitments	82,071	46,239	58,847
Forward foreign exchange contracts	460,970	586,299	239,455
Interest rate swaps	188,650	78,540	188,650
	<u>1,282,469</u>	<u>1,372,478</u>	<u>1,093,526</u>

*Undrawn unconditionally cancellable commitments of RO101.0 M (31 December 2019: RO85.3 M) are considered as part of loan commitments for IFRS 9.

As at 31 March 2020, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore the management does not consider it necessary to make any additional provisions in this regard.

Notes to the unaudited interim condensed financial information (continued)

18 Basis of valuation for financial assets and liabilities measured at fair value

	Valuation techniques		
	Level 1 RO'000	Level 2 RO'000	Total RO'000
At 31 March 2020			
Assets			
Derivatives	-	12,843	12,843
Financial investments at fair value through other comprehensive income	261,297	233,336	494,633
Financial investments at fair value through profit or loss	-	1,920	1,920
Liabilities			
Derivatives	-	1,512	1,512
Deposits from customers	-	193,922	193,922
At 31 March 2019			
Assets			
Derivatives	-	5,961	5,961
Financial investments at fair value through other comprehensive income	347,044	274,189	621,233
Financial investments at fair value through profit or loss	-	2,233	2,233
Liabilities			
Derivatives	-	90	90
Deposits from customers	-	80,101	80,101
At 31 December 2019			
Assets			
Derivatives	-	2,789	2,789
Financial investments at fair value through other comprehensive income	255,434	230,516	485,950
Financial investments at fair value through profit or loss	-	2,135	2,135
Liabilities			
Derivatives	-	1,023	1,023
Deposits from customers	-	192,146	192,146

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 2019.

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Notes to the unaudited interim condensed financial information (continued)

19 Asset liability mismatch

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

Maturities	31 March 2020			31 March 2019			31 December 2019		
	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	1,393,194	889,584	503,610	1,272,528	936,427	336,101	1,358,337	921,487	436,850
6-12 months	30,593	327,163	(296,570)	30,080	330,272	(300,192)	80,601	335,719	(255,118)
1-3 years	80,425	213,460	(133,035)	100,846	159,642	(58,796)	60,048	217,706	(157,658)
3-5 years	333,247	367,546	(34,299)	269,423	155,285	114,138	357,242	369,953	(12,711)
more than 5 years	705,597	745,303	(39,706)	682,143	773,394	(91,251)	693,769	705,132	(11,363)
	2,543,056	2,543,056	-	2,355,020	2,355,020	-	2,549,997	2,549,997	-

20 Exposure to credit risk

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

	31 March 2020		31 March 2019	
	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	210,332	(181)	182,100	(137)
Due from banks	221,537	(39)	189,406	(43)
Loans and advances to customers				
-RBWM	492,812	(9,802)	493,213	(9,398)
-Wholesale	1,078,455	(39,825)	833,112	(25,784)
Other assets	35,590	(77)	22,373	(240)
Total gross carrying amount on balance sheet	2,038,726	(49,924)	1,720,204	(35,602)
Loans and other credit related commitments	715,020	(3,244)	730,971	(1,305)
Total nominal amount off balance sheet	715,020	(3,244)	730,971	(1,305)
	Fair Value RO'000	Memorandum allowance for ECL RO'000	Fair Value RO'000	Memorandum allowance for ECL RO'000
Financial investments at FVOCI	494,633	(107)	621,233	(106)

21 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (31 March 2019 and 31 December 2019 – 2,000,312,790 shares of RO0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO 0.100 each (31 March 2019 and 31 December 2019 –7,500 million shares of RO 0.100 each).

Major Shareholder

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

	31 March 2020	31 March 2019	31 December 2019
	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

Notes to the unaudited interim condensed financial information (continued)

22 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.

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

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

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

Holders of 10% or more of the Bank's shares may include companies, individuals, or families. Families are included if the shares of the family members total 10% or more of the Bank's shares. Members of the family of an individual are those that may be expected to influence, or be influenced by that person in their dealings with the Bank.

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

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ('significant shareholders') or their family members during the period is as follows:

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
31 March 2020					
Loans and advances	-	-	345	116,436	116,781
Current, deposit and other accounts	-	2,873	211	19,881	22,965
Letters of credit and guarantees	-	144,666	-	13,135	157,801
Acceptances	-	-	-	8,771	8,771
Due from banks	-	42,367	-	-	42,367
Due to banks*	-	15,820	-	-	15,820
Collateral received	-	139,171	-	-	139,171
For the period ended 31 March 2020					
Net fee income**	-	(65)	-	-	(65)
Other operating expenses	-	(3,375)	(4)	(285)	(3,664)
Purchase of property and equipment	-	-	-	(5)	(5)

*Due to banks includes Vostro balances of RO13.11 M from HSBC affiliates and accrual of RO2.7 M for the expenses payable to HSBC Affiliates as of 31 March 2020.

**Net fee income includes fee expenses of RO0.2 M incurred for the indemnity received as a collateral from HSBC affiliates.

Notes to the unaudited interim condensed financial information (continued)

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

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

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

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
As at 31 December 2019					
Loans and advances	-	-	353	121,130	121,483
Current, deposit and other accounts	-	2,909	174	19,437	22,520
Letters of credit and guarantees	-	143,853	-	13,509	157,362
Acceptances	-	-	-	637	637
Due from banks	-	47,353	-	-	47,353
Due to banks*	-	17,032	-	-	17,032
Collateral received	-	145,579	-	-	145,579

*Due to banks includes vostro balances of RO12.4 million, borrowings: nil from HSBC affiliates and accrual of RO4.6 million for the expenses payable to HSBC affiliates as of 31 December 2019.

During the year Bank purchased the loans and advances of RO NIL (31 March 2019: RO22.1M and 31 December 2019: RO14.6 M) from HSBC affiliates. However customer attached to these loans are not a related party of the Bank.

Related party loans and advances bear interest at rates between 3.9% p.a. and 5.0% p.a. (31 March 2019: between 1.45% p.a. and 6.5% p.a.). Related party deposits bear interest at rates between 1.3% p.a. and 1.7% p.a. (31 March 2019: between 0.2% p.a. and 1.25% p.a.).

Compensation of key management personnel

	Three month period ended 31 March 2020 RO'000	Three month period ended 31 March 2019 RO'000
Wages, salaries and other short term benefits	441	439
Post-employment benefits	21	21
	462	460

Notes to the unaudited interim condensed financial information (continued)

24 Operating segments

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

	31 March 2020				Total RO'000
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	
Net interest income					
- External	1,278	6,641	4,173	1,975	14,067
- Internal	3,360	774	(1,313)	(2,821)	-
	4,638	7,415	2,860	(846)	14,067
Net fee income	781	1,000	827	(37)	2,571
Net trading income	306	351	940	1,018	2,615
Changes in fair value of financial investments measured at fair value through profit and loss	(57)	(96)	(54)	(7)	(214)
Other operating income	-	-	-	(9)	(9)
Total operating income	5,668	8,670	4,573	119	19,030
Change in expected credit losses and other credit impairment charges	(1,678)	(1,826)	(7,837)	11	(11,330)
Net operating income	3,990	6,844	(3,264)	130	7,700
Total operating expenses	(2,757)	(7,473)	(1,685)	(260)	(12,175)
Loss before tax	1,233	(629)	(4,949)	(130)	(4,475)
Reportable segment assets	574,842	484,211	498,707	985,296	2,543,056
Reportable segment liabilities	1,139,075	599,498	446,769	27,049	2,212,391

	31 March 2019				Total RO'000
	CMB RO'000	RBWM RO'000	GB&M RO'000	Corporate centre RO'000	
Net interest income					
- External	1,137	6,793	4,909	2,605	15,444
- Internal	4,752	911	(1,081)	(4,582)	-
	5,889	7,704	3,828	(1,977)	15,444
Net fee income	492	1,058	1,308	(35)	2,823
Net trading income	332	326	872	2,456	3,986
Changes in fair value of financial investments measured at fair value through profit and loss	(30)	(44)	(29)	(3)	(106)
Other operating income	-	-	-	26	26
Total operating income	6,683	9,044	5,979	467	22,173
Change in expected credit losses and other credit impairment charges	(78)	(81)	248	(4)	85
Net operating income	6,605	8,963	6,227	463	22,258
Total operating expenses	(3,050)	(7,195)	(1,658)	(575)	(12,478)
Profit before tax	3,555	1,768	4,569	(112)	9,780
Reportable segment assets	388,740	485,797	440,334	1,040,149	2,355,020
Reportable segment liabilities	1,075,565	607,432	291,518	50,558	2,025,073

Notes to the unaudited interim condensed financial information (continued)

25 Capital adequacy ratio

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. The banks are required to maintain minimum capital adequacy ratio of 12.25% including capital conservation buffer for 2020 (31 March 2019: 13.5% and 31 December 2019: 13.5%) in accordance with CBO stipulated guidelines.

	31 March 2019 RO'000	31 March 2019 RO'000	31 December 2019 RO'000
CET 1 / Tier 1 capital	326,006	319,204	330,300
Tier 2 capital (T2)	15,728	12,343	14,503
Total regulatory capital	341,734	331,547	344,803
Risk-weighted assets	1,938,187	1,665,294	1,834,582
CET 1 / Tier 1 capital ratio	16.82%	19.17%	18.00%
Total capital ratio	17.63%	19.91%	18.79%

26 Cash and cash equivalents

	Notes	31 March 2020 RO'000	31 March 2019 RO'000
26(a) Non-cash items included in profit before tax			
Changes in fair value of financial investments measured at fair value through profit and loss	11	214	106
Change in expected credit losses and other credit impairment charges	6	11,330	(85)
Depreciation of property and equipment		613	589
Amortisation of intangible assets	8	252	600
Amortisation of discount on financial investment		(142)	95
Employer's current service cost with interest		65	85
Loss on disposal of property and equipment		34	(2)
		12,366	1,388
26(b) Change in operating assets		31 March 2020 RO'000	31 March 2019 RO'000
Change in loans and advances to customers-net		(30,236)	98,501
Change in other assets		(21,160)	(4,003)
		(51,396)	94,498
26(c) Change in operating liabilities		31 March 2020 RO'000	31 March 2019 RO'000
Change in deposits from customers		2,291	(14,084)
Change in other liabilities		4,912	6,059
		7,203	(8,025)
26(d) The reconciliation of the components of cash and cash equivalents with the equivalent items shown in the unaudited interim condensed statement of financial position is shown below:		31 March 2020 RO'000	31 March 2019 RO'000
Unaudited interim condensed statement of financial position comprise:			
Cash and balances with central bank		210,151	181,963
Due from banks		221,498	189,363
Financial investments - original maturities of three months or less		378,272	521,617
Due to banks		(67,175)	(36,910)
		742,746	856,033

Notes to the unaudited interim condensed financial information (continued)

27 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 2020 (for 31 March 2019: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 31 March 2020 was 201% (31 March 2019 – 245%)

Liquidity coverage ratio disclosure for the period ended 31 March 2020:

	31 March 2020	
	Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets		
1 Total High quality liquid assets (HQLA)		661,180
Cash outflows		
Retail deposits and deposits from small business customers, of		
2 which:	589,553	43,438
3 - Stable deposits	310,354	15,518
4 - Less stable deposits	279,199	27,920
5 Unsecured wholesale funding, of which:	1,083,370	483,939
- Operational deposits (all counterparties) and deposits in		
6 networks of cooperative banks	-	-
7 - Non-operational deposits (all counterparties)	1,083,370	483,939
8 - Unsecured debt	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which	61,928	6,093
- 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	61,928	6,093
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	1,240,073	62,004
16 Total cash outflows (2+5+10+15)		595,474
Cash inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	279,253	266,165
19 Other cash inflows	-	-
20 Total cash inflows (17+18+19)	279,253	266,165
21 Total HQLA		661,180
22 Total net cash outflows (16-20)		329,309
23 Liquidity coverage ratio (21/22)		201%

*simple average of daily observations over the last three month (Jan – Mar 2020).

Notes to the unaudited interim condensed financial information (continued)

28 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 became effective from 1 January 2018 with a minimum ratio of 100%. The Bank's NSFR as of 31 March 2020 was 140% (31 March 2019 – 137%)

Net Stable Funding Ratio disclosure for the period ended 31 March 2020:

Available Stable funding (ASF) items		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	346,393	-	-	-	346,393
2	Regulatory capital	345,225	-	-	-	345,225
3	Other capital instruments	1,168	-	-	-	1,168
4	Retail deposits and deposits from small business customers	557,474	9,416	10,596	14,419	549,781
5	Stable deposits	312,358	67	75	-	296,874
6	Less stable deposits	245,116	9,349	10,521	14,419	252,907
7	Wholesale funding:	1,036,832	102,612	89,280	320,294	934,656
8	Operational deposits	67,175	-	-	-	33,588
9	Other wholesale funding	969,657	102,612	89,280	320,294	901,068
10	Liabilities with matching interdependent assets					
11	Other liabilities:	43,682	32,406	3,184	-	-
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	43,682	32,406	3,184	-	-
14	Total ASF					1,830,830
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)					24,719
16	Deposits held at other financial institutions for operational purposes	34,271	-	-	-	17,136
17	Performing loans and securities:	2,171	754,721	14,735	887,667	1,098,331
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	-	178,706	-	-	28,090
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	-	574,337	13,193	779,367	966,537
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	58,059	37,738
22	Performing residential mortgages, of which:	-	1,678	1,542	108,300	64,121
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	1,678	1,542	96,171	62,511

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	2,171	-	-	-	1,845
25	Assets with matching interdependent liabilities					
26	Other Assets:	43,389	43,737	-	11,882	102,192
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	-			11,331	11,331
30	NSFR derivative liabilities before deduction of variation margin posted	-			-	-
31	All other assets not included in the above categories	43,389	32,406	3,184	11,882	90,861
32	Off-balance sheet items		709,543	68,024	504,920	64,124
33	TOTAL RSF					1,306,502
34	NET STABLE FUNDING RATIO (%)					140.13

Notes to the unaudited interim condensed financial information (continued)

29 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 became effective from 31 December 2018 with a minimum ratio of 4.5%. The Bank's leverage ratio as of 31 March 2020 was 10.9% (31 March 2019 – 11.4%)

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

	Item	As at 31.03.2020
1	Total consolidated assets as per published financial statements	2,543,056
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	18,396
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)	484,019
7	Other adjustments	(3,453)
8	Leverage ratio exposure	3,042,019

Table 2: Leverage ratio common disclosure template

	Item	As at 31.03.2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,543,056
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,453)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,539,603
	Derivative Exposures	
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	12,843
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	5,553
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)	18,396
	Securities financing transaction exposures	
12	Gross SFT <i>assets</i> (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	1,246,897
18	(Adjustments for conversion to credit equivalent amounts)	(762,878)
19	Off-balance sheet items (sum of lines 17 and 18)	484,019
	Capital and total exposures	
20	Tier 1 capital	326,006
21	Total exposures (sum of lines 3, 11, 16 and 19)	3,042,018
	Leverage Ratio	
22	Basel III leverage ratio (%)	10.7

30 Corresponding figures

Certain corresponding figures for 2019 have been reclassified in order to conform to the presentation for the current period. Such reclassifications have not resulted in a change in prior period reported figures of profit and equity.

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