

# HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 June 2020



**Interim Condensed Financial Information – 30 June 2020**

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**Presentation of information**

This document comprises the Interim Condensed Financial Information – 30 June 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 six months ended 30 June 2020**

Dear Shareholders,

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

### **Performance Summary**

Our performance in the first half of 2020 shows a net loss of RO3.2 M compared with a net profit of RO19.2 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 current economic environment following the outbreak of the Covid-19 pandemic and the significant sustained drop in the oil price. While there has been a relative relaxation relating to the movement of people in Oman and the government's lockdown of economic activities, we continue to monitor how the situation will evolve through the remainder of 2020.

Net interest income was down 10.1% to RO27.5 M for the period ended 30 June 2020 compared with RO30.6 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 RO4.3 M for the period ended 30 June 2020 compared with RO5.5 M for the same period in 2019 as the impact of the economic slowdown hit the launch of new projects and also impacted the cards business as spending was reduced.

Net Trading income was down 34.9% to RO5.4 M compared with RO8.3 M for the same period last year, owing largely to the lower yield on FX swaps.

A net charge of RO17.3 M has been reported for the Bank's ECL and other credit impairment charges compared with a net release of RO2.3 M for the same period last year. Wholesale's ECL was up RO14.2 M while Retail's ECL was up RO5.4 M. As explained above, the incremental ECL largely reflected the change in key macro-economic variables due to the outbreak of Covid-19.

Operating expenses fell 2.5% to RO23.6 M compared with RO24.2 M for the same period in 2019.

Loans and advances to customers continued to grow with half year end balances up 4.5% to RO1,461.4 M compared with RO1,399.0 M as at 30 June 2019.

Customer deposits decreased by 5.6% to RO1,914.4 M compared to the same period last year. Our liquidity remains strong, as evidenced by an Advances to Deposit ratio (ADR) of 76.3% at the end of June 2020.

HBON's Capital Adequacy Ratio (CAR) stood at 19.0% as at 30 June 2020 compared with 18.6% as at 30 June 2019.

### **Delivering the best customer experience**

Wealth and Personal Banking (WPB) sales momentum dropped in the second quarter due to reduced footfall in the branches as a result of the Covid pandemic and the lockdown within the country. The drop in momentum has impacted asset balances, however deposits have grown mainly due to a change in customer behaviour and lower spending due to the lockdown.

During the quarter WPB introduced various forbearance measures to assist customers who have been impacted by the current environment, in line with CBO and Government guidelines, and these include, amongst others, instalment waivers and fee waivers.

The business has also enabled "work from home" for the majority of the staff in WPB. Staff can continue to provide services and support for customers as social distancing has limited the number of staff able to work from conventional locations. To improve our customer's banking experience, WPB is in the process of enabling more processes which are currently handled through the branch network to the call centre.

On the Digital side, WPB released a new feature for its customers allowing them to open a Term Deposit online instantly.

In the wholesale businesses, we are pleased that HSBC Bank Oman has been named as the Best Investment Bank in Oman at the 2020 Euromoney Middle East Awards for Excellence, which reflects our strong position, our unrivalled ability to deliver cross-border solutions for our clients and our unique Investment Banking Coverage platform.

During the quarter we launched the HSBCnet Mobile App, giving corporate customers access to their HSBCnet account while on the move. In a first for the Oman market, companies can now manage their cash flows and trade finance needs, and obtain real-time transaction reporting, from the convenience of their mobile device. The launch of the HSBCnet mobile app complements the efforts of the Central Bank of Oman and the Omani Government who are leading the transition to a more digitally-based payments ecosystem.

### **Our COVID-19 relief measures**

We continue to support our customers during these difficult times and we stay connected with them through all of our different digital channels, through which they can manage their accounts and perform banking transactions using Online Banking, HSBC Mobile Banking App, Phone Banking, HSBCnet and HSBC Connect.

During the second quarter, and in line with the directives from the Central Bank of Oman, we announced a range of special measures to support our customers. These include:

- Loan instalment waivers/deferments:
- Waiving Outward Telegraphic Transfer charges for Local Transfers via all channels;
- Waiving over limit fees on credit cards;
- Temporary increases in Credit Card limits subject to eligibility; and
- Increased the limit for Contactless payments for Debit and Credit Cards to OMR 40.

Under our Corporate Sustainability agenda, we have adapted our 2020 plan to mitigate the impacts of COVID-19 and to ensure that our Future Skills programmes contribute to enhancing the skills of the youth of Oman for a post-Covid world.

In our Tahfeez programme with Sharakah, we have widened the scope of the programme to include open bi-weekly sessions and panel discussions that focus on themes such as artificial intelligence, the internet of things and future energy.

### **Conclusion**

On behalf of the Board, I would like to express our sincerest thanks to our outgoing Chief Executive Officer, Andrew Long, for his extraordinary contribution over the last seven years. I am also delighted to welcome Melika Betley as the new CEO of the Bank and wish her all the best in her new role.

We would like to express our thanks and appreciation to the Supreme Committee of COVID-19, and we confirm our commitment to support their efforts to help the country to overcome this crisis. And we look forward to continuing to support the Sultanate under His Majesty Sultan Haitham's wise leadership.

**Sir Sherard Cowper-Coles**  
**Chairman**

Summary of unaudited results for the six month period ended 30 June 2020

	30 June 2020	30 June 2019	
	RO'000	RO'000	Change (%)
Loans and advances to customers - net	1,461,426	1,399,049	4.5%
Customer deposits	1,914,445	2,027,082	(5.6)%
Net assets	332,043	341,229	(2.7)%
* Net assets per share	0.166	0.171	(2.9)%
	Six month period ended 30 June 2020	Six month period ended 30 June 2019	
	RO'000	RO'000	Change (%)
Net interest income	27,483	30,572	(10.1)%
(Loss) / profit for the period	(3,201)	19,233	(116.6)%
** (Loss) / earnings per share (annualised)	(0.003)	0.019	(115.8)%
***Capital adequacy ratio (CAR)	19.04%	18.56%	0.48%

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

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

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

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

### Introduction

We have reviewed the accompanying interim condensed statement of financial position of **HSBC Bank Oman SAOG (the Bank)** as of 30 June 2020, and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six 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 (M.E.) & Co. LLC**  
Muscat, Sultanate of Oman  
28 July 2020



**Unaudited interim condensed statement of comprehensive income for the six month period ended 30 June 2020**

		<b>Three month period ended 30 June 2020</b>	Three month period ended 30 June 2019	<b>Six month period ended 30 June 2020</b>	Six month period ended 30 June 2019
	<i>Notes</i>	<b>RO'000</b>	RO'000	<b>RO'000</b>	RO'000
Interest income	3	17,507	19,147	36,658	37,468
Interest expense	4	(4,091)	(4,019)	(9,175)	(6,896)
<b>Net interest income</b>		<b>13,416</b>	15,128	<b>27,483</b>	30,572
Fee income		2,571	3,602	5,979	7,512
Fee expense		(880)	(959)	(1,717)	(2,046)
<b>Net fee income</b>		<b>1,691</b>	2,643	<b>4,262</b>	5,466
Net trading income		2,817	4,326	5,432	8,312
Changes in fair value of financial investments measured at fair value through profit and loss		34	27	(180)	(79)
Dividend income		11	19	11	19
Other operating (expenses) / income - net		(19)	545	(28)	571
<b>Net operating income before loan impairment charges and other credit risk provisions</b>		<b>17,950</b>	22,688	<b>36,980</b>	44,861
Change in expected credit losses and other credit impairment charges	5	(5,977)	2,233	(17,307)	2,318
<b>Net operating income</b>		<b>11,973</b>	24,921	<b>19,673</b>	47,179
Employee compensation and benefits		(5,395)	(5,784)	(11,147)	(11,583)
General and administrative expenses	6	(5,277)	(4,911)	(10,835)	(10,401)
Depreciation of property and equipment		(660)	(535)	(1,273)	(1,153)
Amortisation of intangible assets	7	(75)	(467)	(327)	(1,038)
<b>Total operating expenses</b>		<b>(11,407)</b>	(11,697)	<b>(23,582)</b>	(24,175)
<b>Profit / (loss) before tax</b>		<b>566</b>	13,224	<b>(3,909)</b>	23,004
Taxation		708	(2,119)	708	(3,771)
<b>Profit / (loss) for the period</b>		<b>1,274</b>	11,105	<b>(3,201)</b>	19,233
<b>Other comprehensive income / (loss)</b>					
<b>Items that will be reclassified subsequently to profit or loss when specific conditions are met</b>					
<b>Debt instruments at fair value though other comprehensive income</b>					
-Fair value (loss) / gain		(782)	231	(143)	178
-Expected credit losses recognised in income statement		769	(19)	777	7
-Income tax		117	(35)	21	(27)
<b>Other comprehensive gain for the period - net of tax</b>		<b>104</b>	177	<b>655</b>	158
<b>Total comprehensive income / (loss) for the period</b>		<b>1,378</b>	11,282	<b>(2,546)</b>	19,391
<b>Earnings / (loss) per share – basic and diluted</b>	8				
-for the period (RO)		0.001	0.006	(0.002)	0.010
-annualised (RO)		0.003	0.022	(0.003)	0.019

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

Unaudited interim condensed statement of financial position as at 30 June 2020

		At 30 June 2020	At 30 June 2019	Audited At 31 December 2019
	Notes	RO'000	RO'000	RO'000
<b>Assets</b>				
Cash and balances with central banks		267,798	258,187	281,186
Due from banks		175,411	225,678	205,595
Loans and advances to customers - net	9	1,461,426	1,399,049	1,502,734
Financial investments	10	420,431	517,052	488,085
Other assets	11	49,269	37,657	45,099
Intangible assets	12	1,369	879	1,572
Property and equipment	13	24,629	23,920	23,648
Deferred tax assets		2,467	1,844	2,078
<b>Total assets</b>		<b>2,402,800</b>	<b>2,464,266</b>	<b>2,549,997</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Due to banks		69,600	43,241	54,754
Deposits from customers	14	1,914,445	2,027,082	2,071,457
Other liabilities	15	84,567	47,316	64,407
Current tax liabilities		2,145	5,398	7,387
<b>Total liabilities</b>		<b>2,070,757</b>	<b>2,123,037</b>	<b>2,198,005</b>
<b>Equity</b>				
Share capital	20	200,031	200,031	200,031
Legal reserve	21(a)	45,944	43,016	45,944
Fair value through other comprehensive income (FVOCI) reserve	21(b)	1,272	(32)	617
Retained earnings		84,796	98,214	105,400
<b>Net equity</b>		<b>332,043</b>	<b>341,229</b>	<b>351,992</b>
<b>Total liabilities and equity</b>		<b>2,402,800</b>	<b>2,464,266</b>	<b>2,549,997</b>
<b>Net assets per share - RO</b>		<b>0.166</b>	<b>0.171</b>	<b>0.176</b>
<b>Off-balance sheet items:</b>				
<b>Contingent liabilities and commitments</b>				
- Documentary credits		53,907	73,453	97,014
- Guarantees and performance bonds		524,121	512,903	535,007
- Others	16	1,183,531	1,476,332	1,093,526
		<b>1,761,559</b>	<b>2,062,688</b>	<b>1,725,547</b>

The interim condensed financial information were authorised for issue on 28 July 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 six month period ended 30 June 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	-	-	-	19,233	19,233
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	158	-	158
Total other comprehensive income for the period	-	-	158	-	158
Total comprehensive income for the period	-	-	158	19,233	19,391
Transaction with shareholders, recorded directly in equity					
Dividend for 2018	-	-	-	(18,603)	(18,603)
At 30 June 2019	200,031	43,016	(32)	98,214	341,229
<b>At 1 January 2020</b>	<b>200,031</b>	<b>45,944</b>	<b>617</b>	<b>105,400</b>	<b>351,992</b>
<b>Total comprehensive income for the period</b>					
Loss for the period	-	-	-	(3,201)	(3,201)
<b>Other comprehensive income for the period</b>					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	655	-	655
<b>Total other comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>655</b>	<b>-</b>	<b>655</b>
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>655</b>	<b>(3,201)</b>	<b>(2,546)</b>
<b>Transaction with shareholders, recorded directly in equity</b>					
Dividend for 2019	-	-	-	(17,403)	(17,403)
<b>At 30 June 2020</b>	<b>200,031</b>	<b>45,944</b>	<b>1,272</b>	<b>84,796</b>	<b>332,043</b>

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

Unaudited interim condensed statement of cash flows for the six month period ended  
30 June 2020

	<b>Notes</b>	<b>Six month period ended 30 June 2020 RO'000</b>	<b>Six month period ended 30 June 2019 RO'000</b>
<b>Cash flows from operating activities</b>			
(Loss) / profit before tax		<b>(3,909)</b>	23,004
Adjustments for:			
- non-cash items included in profit before tax	25(a)	<b>19,118</b>	(1,364)
-Change in operating assets	25(b)	<b>19,831</b>	(7,819)
-Change in operating liabilities	25(c)	<b>(136,575)</b>	100,136
-Tax paid		<b>(5,241)</b>	(6,019)
- Retirement benefits paid		<b>(22)</b>	(54)
<b>Net cash (used in) / generated from operating activities</b>		<b>(106,798)</b>	107,884
<b>Cash flows from investing activities</b>			
Purchase of financial investments		<b>(45,415)</b>	(29,203)
Proceeds from maturity of financial investments		<b>58,125</b>	5,283
Purchase of property, equipment and softwares	13	<b>(1,757)</b>	(960)
Proceeds from sale of property and equipment		<b>-</b>	1,450
<b>Net cash generated from / (used in) investing activities</b>		<b>10,953</b>	(23,430)
<b>Cash flows used in financing activities</b>			
Dividends paid		<b>(17,403)</b>	(18,603)
<b>Net change in cash and cash equivalents</b>		<b>(113,248)</b>	65,851
Cash and cash equivalents at the beginning of the period		<b>797,388</b>	794,391
<b>Cash and cash equivalents at the end of the period</b>	25(d)	<b>684,140</b>	860,242

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, which is incorporated in England.

**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 Proforma 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 Rial 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 as stipulated in the 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)**

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**(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 ('CODM') 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.

**Change in reportable segments**

Effective from 2Q20, the Bank made the following realignments within our internal reporting to CODM:

- Simplification of our matrix organisational structure by merging Global Private Banking ("GPB") and Retail Banking and Wealth Management ('RBWM') to form Wealth and Personal Banking (WPB).
- Reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Comparative data have been represented accordingly in note 23 of these financial information.

**Products and services**

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

- Wealth and Personal Banking ('WPB') 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 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 Interest income**

Interest bearing assets earned interest at an overall annualised rate of 3.45% for the six month period ended 30 June 2020 (30 June 2019 – 3.60%).

	<b>Six month period ended 30 June 2020 RO'000</b>	Six month period ended 30 June 2019 RO'000
Loans and advances to customers	<b>33,277</b>	31,918
Financial investments	<b>2,165</b>	2,911
Due from banks	<b>868</b>	2,639
Others	<b>348</b>	-
	<b>36,658</b>	37,468

**4 Interest expense**

For the six month period ended 30 June 2020, the average overall annualised cost of funds was 0.89% (30 June 2019 – 0.68%).

	<b>Six month period ended 30 June 2020 RO'000</b>	Six month period ended 30 June 2019 RO'000
Deposits from customers	<b>(9,016)</b>	(6,738)
Due to banks	<b>(88)</b>	-
Others	<b>(71)</b>	(158)
	<b>(9,175)</b>	(6,896)

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

	<b>Six month period ended 30 June 2020 RO'000</b>	Six month period ended 30 June 2019 RO'000
- loans and advances to customer	<b>(14,847)</b>	2,138
- due from banks	<b>(4)</b>	-
- loan commitment and guarantees	<b>(1,148)</b>	144
- other financial assets	<b>(531)</b>	43
- financial investments at FVOCI	<b>(777)</b>	(7)
	<b>(17,307)</b>	2,318

Notes to the unaudited interim condensed financial information (continued)

**6 General and administrative expenses**

	<b>Six month period ended 30 June 2020 RO'000</b>	Six month period ended 30 June 2019 RO'000
Marketing and advertising*	(838)	(931)
Premises and equipment	(1,309)	(1,398)
Communications	(183)	(279)
Insurance	(566)	(514)
Other administrative expense	(7,939)	(7,279)
	<b>(10,835)</b>	<b>(10,401)</b>

\*Marketing and advertising expenses for the current period include the RO 0.6 M of “Mandoos Prize” draw expenses (30 June 2019: RO 0.6 M).

**7 Amortisation of intangible assets**

	<b>Six month period ended 30 June 2020 RO'000</b>	Six month period ended 30 June 2019 RO'000
This represents amortisation of intangible assets as a result of business combination and softwares which comprise the following :		
- Core deposits	-	(733)
- Customer relationships	-	(219)
- Softwares	(327)	(86)
	<b>(327)</b>	<b>(1,038)</b>

**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:

	<b>Six month period ended 30 June 2020</b>	Six month period ended 30 June 2019	Year ended 31 December 2019
Weighted average number of shares in issue ('000)	<b>2,000,312</b>	2,000,312	2,000,312
Net (loss) / profit for the period / year (RO'000)	<b>(3,201)</b>	19,233	29,284
<b>(Loss) / earnings per share – basic and diluted (RO)</b>			
- for the period / year	<b>(0.002)</b>	0.010	0.015
- annualised	<b>(0.003)</b>	0.019	0.015

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.

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
Overdrafts	<b>193,677</b>	116,404	172,654
Credit cards	<b>21,689</b>	28,449	33,720
Loans	<b>1,255,040</b>	1,208,870	1,280,726
Clean import loans	<b>82,670</b>	107,195	87,338
Bills discounted / purchased	<b>4,393</b>	11,242	9,024
Gross loans and advances	<b>1,557,469</b>	1,472,160	1,583,462
ECL Allowances	<b>(52,810)</b>	(32,780)	(38,776)
Reserved interest*	<b>(43,233)</b>	(40,331)	(41,952)
Net loans and advances	<b>1,461,426</b>	1,399,049	1,502,734

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

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

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
<b>At 1 January</b>	<b>38,776</b>	35,502	35,502
Net remeasurement of ECL arising from transfer of stage	<b>769</b>	(84)	829
Net new lending and changes to risk parameters	<b>15,421</b>	(304)	4,118
Assets written off	<b>(2,156)</b>	(2,334)	(1,673)
<b>At 30 June / 31 December</b>	<b>52,810</b>	32,780	38,776
ECL charge for the period / year	<b>(16,190)</b>	388	(4,947)
Recoveries	<b>1,343</b>	1,750	3,216
<b>Total ECL (charge) / release for the period / year</b>	<b>(14,847)</b>	2,138	(1,731)

**Covid-19 and Expected Credit Loss (ECL):**

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. We are also working closely with Central Bank of Oman and supporting schemes that focus on the parts of the economy most impacted by Covid-19

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.

Notes to the unaudited interim condensed financial information (continued)

**Macro-Economic forecast and probability weights:**

Expected credit loss impairment allowances recognised in the financial information reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios. The recognition and measurement of ECL involves the use of significant judgement and estimation. It is necessary to formulate multiple macro-economic forecasts and incorporate them into the ECL estimates. The Bank uses a standard framework to form economic scenarios to reflect assumptions about future economic conditions, supplemented with the use of management judgement, which may result in using alternative or additional economic scenarios and/or management adjustments.

In light of the current uncertain economic environment, the internal governance forum has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the period ended 30 June 2020. The internal governance forum has decided to apply probability weightings to four macro-economic scenarios including upside, central, downside and additional downside scenarios. These scenarios have been applied for key macro-economic variables including GDP growth rate, unemployment rate and oil prices and the highest weight has been assigned to the 'central scenario'.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

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

	<b>30 June 2020 RO'000</b>	<b>30 June 2019 RO'000</b>	31 December 2019 RO'000
Balance at the beginning of the period/ year	<b>41,952</b>	38,892	38,892
Reserved during the period/ year	<b>1,621</b>	2,143	4,356
Released to the statement of comprehensive income	<b>(214)</b>	(338)	(711)
Written off during the period/ year	<b>(126)</b>	(366)	(585)
Balance at the end of the period/ year	<b>43,233</b>	40,331	41,952

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

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
0-5%	<b>1,132,911</b>	984,592	1,087,850
5-7%	<b>364,650</b>	399,200	409,659
7-10%	<b>31,091</b>	37,243	34,424
10-13%	<b>3,553</b>	19,011	15,460
More than 13%	<b>25,264</b>	32,114	36,069
	<b>1,557,469</b>	1,472,160	1,583,462

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

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
0-6 months	<b>426,026</b>	373,882	437,591
6-12 months	<b>20,510</b>	21,998	30,081
1-3 years	<b>250,040</b>	49,623	53,582
3-5 years	<b>140,094</b>	350,233	324,718
More than 5 years	<b>624,756</b>	603,313	656,762
	<b>1,461,426</b>	1,399,049	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

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
<b>Personal and consumer loans</b>	<b>477,293</b>	497,274	494,310
<b>Corporate and commercial</b>			
Import trade	180,229	197,107	201,678
Construction	96,669	67,850	89,122
Manufacturing	192,685	226,448	206,833
Wholesale and retail trade	69,088	85,793	79,073
Electricity, gas, water, transportation and communication	96,389	14,781	85,811
Services	113,337	126,118	116,860
Mining and quarrying	163,558	171,117	169,153
Others	160,509	77,966	132,879
	<b>1,072,464</b>	967,180	1,081,409
<b>Financial Institutions</b>	<b>7,712</b>	7,706	7,743
<b>Total gross loans and advances</b>	<b>1,557,469</b>	1,472,160	1,583,462
ECL Allowances	(52,810)	(32,780)	(38,776)
Reserved interest	(43,233)	(40,331)	(41,952)
<b>Net loans and advances</b>	<b>1,461,426</b>	1,399,049	1,502,734
<b>Non-performing loans (NPL)</b>	<b>78,385</b>	64,220	70,767

The estimated fair value of loans and advances is RO1,420.2 M as of 30 June 2020 (30 June 2019 – RO1,359.1 M and 31 December 2019 – RO1,464.2 M).

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

<b>As of 30 June 2020</b>	<b>As per CBO norms RO'000</b>	<b>As per IFRS 9 RO'000</b>	<b>Difference RO'000</b>
Impairment loss (charged) / released to profit and loss account	(3,877)	(17,307)	(13,430)
Provisions required*	40,913	58,426	17,513
Gross NPL ratio (percentage)	5.03%	5.03%	-
Net NPL ratio (percentage)	0.93%	0.68%	(0.25)%

\*Impairment loss charged in this interim condensed financial information is based on IFRS 9 as IFRS 9 ECL allowance is more than the CBO provision requirement.

## Notes to the unaudited interim condensed financial information (continued)

## Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as of 30 June 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	899,373	12,545	8,147	4,398	891,226	106
	Stage 2	548,762	5,581	15,475	(9,894)	533,287	896
Standard	Stage 3	-	-	-	-	-	-
		<b>1,448,135</b>	<b>18,126</b>	<b>23,622</b>	<b>(5,496)</b>	<b>1,424,513</b>	<b>1,002</b>
	Stage 1	8	-	1	(1)	7	-
	Stage 2	30,361	315	2,721	(2,406)	27,640	36
Special mention	Stage 3	580	107	179	(72)	401	21
		<b>30,949</b>	<b>422</b>	<b>2,901</b>	<b>(2,479)</b>	<b>28,048</b>	<b>57</b>
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	2,510	627	1,553	(926)	957	143
		<b>2,510</b>	<b>627</b>	<b>1,553</b>	<b>(926)</b>	<b>957</b>	<b>143</b>
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	6,322	3,096	4,758	(1,662)	1,564	146
		<b>6,322</b>	<b>3,096</b>	<b>4,758</b>	<b>(1,662)</b>	<b>1,564</b>	<b>146</b>
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	69,553	18,642	19,976	(1,334)	49,577	41,885
		<b>69,553</b>	<b>18,642</b>	<b>19,976</b>	<b>(1,334)</b>	<b>49,577</b>	<b>41,885</b>
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	962,684	-	1,068	(1,068)	961,616	-
	Stage 2	596,629	-	4,293	(4,293)	592,336	-
	Stage 3	1,069	-	255	(255)	814	-
		<b>1,560,382</b>	<b>-</b>	<b>5,616</b>	<b>(5,616)</b>	<b>1,554,766</b>	<b>-</b>
	Stage 1	1,862,065	12,545	9,216	3,329	1,852,849	106
	Stage 2	1,175,752	5,896	22,489	(16,593)	1,153,263	932
	Stage 3	80,034	22,472	26,721	(4,249)	53,313	42,195
<b>Total</b>	<b>Total</b>	<b>3,117,851</b>	<b>40,913</b>	<b>58,426</b>	<b>(17,513)</b>	<b>3,059,425</b>	<b>43,233</b>

Notes to the unaudited interim condensed financial information (continued)

Restructured loans and advances (as per CBO illustrative disclosure) as of 30 June 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	3,200	32	9	23	3,191	-
	Stage 2	9,797	98	1,337	(1,239)	8,460	-
	Stage 3	580	107	179	(72)	401	21
Sub Total		13,577	237	1,525	(1,288)	12,052	21
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	29,439	8,239	10,080	(1,841)	19,359	15,229
		29,439	8,239	10,080	(1,841)	19,359	15,229
<b>Total</b>	Stage 1	3,200	32	9	23	3,191	-
	Stage 2	9,797	98	1,337	(1,239)	8,460	-
	Stage 3	30,019	8,346	10,259	(1,913)	19,760	15,250
<b>Total</b>		<b>43,016</b>	<b>8,476</b>	<b>11,605</b>	<b>(3,129)</b>	<b>31,411</b>	<b>15,250</b>

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:

	<b>Fair value</b>	Fair value	Fair value	<b>Carrying value*</b>	Carrying value	Carrying value	<b>Cost</b>	Cost	Cost
	<b>30 June</b>	30 June	31 December	<b>30 June</b>	30 June	31 December	<b>30 June</b>	30 June	31 December
	<b>2020</b>	2019	2019	<b>2020</b>	2019	2019	<b>2020</b>	2019	2019
	<b>RO'000</b>	RO'000	RO'000	<b>RO'000</b>	RO'000	RO'000	<b>RO'000</b>	RO'000	RO'000
<b>Marketable securities – MSM</b>									
Government bonds	<b>107,556</b>	64,984	65,599	<b>107,556</b>	64,984	65,599	<b>107,096</b>	65,123	64,982
<b>Unquoted and other investments</b>									
Treasury bills	<b>310,670</b>	449,557	420,101	<b>310,670</b>	449,557	420,101	<b>310,661</b>	449,556	420,107
Unquoted Omani shares	<b>260</b>	260	260	<b>260</b>	260	260	<b>260</b>	260	260
Unquoted foreign shares	<b>7</b>	7	7	<b>7</b>	7	7	<b>7</b>	7	7
Investment fund units	<b>1,938</b>	2,244	2,118	<b>1,938</b>	2,244	2,118	<b>2,879</b>	3,003	2,879
	<b>312,875</b>	452,068	422,486	<b>312,875</b>	452,068	422,486	<b>313,807</b>	452,826	423,253
<b>Total</b>	<b>420,431</b>	517,052	488,085	<b>420,431</b>	517,052	488,085	<b>420,903</b>	517,949	488,235

\*ECL allowance on financial investments amounting to RO0.9 M (30 June 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

	30 June 2020 RO'000	30 June 2019 RO'000	31 December 2019 RO'000
<b>Financial investments measured at fair value through other comprehensive income</b>			
Treasury bills	310,670	449,557	420,101
Government bonds	107,556	64,984	65,599
Other investments	250	250	250
	<u>418,476</u>	<u>514,791</u>	<u>485,950</u>
<b>Financial investments measured at fair value through profit or loss</b>			
Equity investments	1,955	2,261	2,135
	<u>420,431</u>	<u>517,052</u>	<u>488,085</u>

11 Other assets

	30 June 2020 RO'000	30 June 2019 RO'000	31 December 2019 RO'000
Acceptances	29,279	22,996	34,282
ECL on acceptances	(184)	(53)	(52)
Acceptances (net of ECL)	<u>29,095</u>	<u>22,943</u>	<u>34,230</u>
Derivatives - positive mark-to-market	11,948	2,716	2,789
Prepayments and accrued income	689	707	808
Right-of-use assets	2,852	3,538	3,436
Others	4,685	7,753	3,836
	<u>49,269</u>	<u>37,657</u>	<u>45,099</u>

12 Intangible assets

	30 June 2020 RO'000	30 June 2019 RO'000	31 December 2019 RO'000
Core deposits	-	12,306	12,306
Customer relationships	-	3,691	3,691
Softwares	2,418	1,403	2,294
	<u>2,418</u>	<u>17,400</u>	<u>18,291</u>
Less: amortised	(1,049)	(16,521)	(16,719)
	<u>1,369</u>	<u>879</u>	<u>1,572</u>

13 Property and equipment

RO1.6 M of property and equipment were added during the period (30 June 2019: RO0.3 M). Property and equipment disposed of during the period was RO1.8 M (30 June 2019: 4.5 M).

Notes to the unaudited interim condensed financial information (continued)

**14 Deposits from customers**

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
Deposits details are as follows:			
Current and call	<b>959,029</b>	978,440	978,775
Savings	<b>420,769</b>	405,949	392,825
Time deposits	<b>530,393</b>	640,526	697,179
Others	<b>4,254</b>	2,167	2,678
	<b>1,914,445</b>	2,027,082	2,071,457

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

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
0-6 months	<b>721,567</b>	809,519	798,907
6-12 months	<b>249,239</b>	289,629	305,221
1-3 years	<b>231,081</b>	150,020	217,706
3-5 years	<b>346,074</b>	381,359	369,953
Over 5 years	<b>366,484</b>	396,555	379,670
	<b>1,914,445</b>	2,027,082	2,071,457

The interest rate bands of deposits are as follows:

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
0-2%	<b>1,498,684</b>	1,542,244	1,571,699
2-5%	<b>415,761</b>	484,838	499,758
	<b>1,914,445</b>	2,027,082	2,071,457

**15 Other liabilities**

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
Derivatives – negative mark-to-market	<b>3,166</b>	2,139	1,023
Retirement benefit liability	<b>1,396</b>	1,315	1,309
Acceptances	<b>29,279</b>	22,996	34,282
Provisions	<b>501</b>	247	219
ECL on off balance sheet exposure and other commitments	<b>3,901</b>	958	2,754
Accruals and deferred income	<b>3,789</b>	4,889	5,525
Lease liabilities	<b>2,018</b>	3,093	2,772
Others	<b>40,517</b>	11,679	16,523
	<b>84,567</b>	47,316	64,407

Notes to the unaudited interim condensed financial information (continued)

16 Contingent liabilities, commitments and derivatives

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
Undrawn unconditionally cancellable commitments*	<b>548,435</b>	712,294	606,574
Undrawn unconditionally non-cancellable commitments	<b>63,075</b>	55,939	58,847
Forward foreign exchange contracts	<b>383,371</b>	533,309	239,455
Interest rate swaps	<b>188,650</b>	174,790	188,650
	<b><u>1,183,531</u></b>	<u>1,476,332</u>	<u>1,093,526</u>

\*Undrawn unconditionally cancellable commitments of RO90.7 M (31 December 2019: RO85.3 M) are considered as part of loan commitments for IFRS 9.

As at 30 June 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)

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
<b>At 30 June 2020</b>			
<b>Assets</b>			
Derivatives	-	11,948	11,948
Financial investments at fair value through other comprehensive income	225,724	192,752	418,476
Financial investments at fair value through profit or loss	-	1,955	1,955
<b>Liabilities</b>			
Derivatives	-	3,166	3,166
Deposits from customers	-	195,698	195,698
<b>At 30 June 2019</b>			
<b>Assets</b>			
Derivatives	-	2,716	2,716
Financial investments at fair value through other comprehensive income	280,016	234,775	514,791
Financial investments at fair value through profit or loss	-	2,261	2,261
<b>Liabilities</b>			
Derivatives	-	2,139	2,139
Deposits from customers	-	175,430	175,430
<b>At 31 December 2019</b>			
<b>Assets</b>			
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
<b>Liabilities</b>			
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.



Notes to the unaudited interim condensed financial information (continued)

**18 Asset liability mismatch**

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

Maturities	30 June 2020			30 June 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	1,232,883	870,445	362,438	1,311,477	903,658	407,819	1,358,337	921,487	436,850
6-12 months	32,016	249,567	(217,551)	34,654	309,669	(275,015)	80,601	335,719	(255,118)
1-3 years	271,991	231,081	40,090	94,238	150,069	(55,831)	60,048	217,706	(157,658)
3-5 years	183,127	346,074	(162,947)	382,718	381,359	1,359	357,242	369,953	(12,711)
more than 5 years	682,783	705,633	(22,850)	641,179	719,511	(78,332)	693,769	705,132	(11,363)
	<b>2,402,800</b>	<b>2,402,800</b>	-	<b>2,464,266</b>	<b>2,464,266</b>	-	<b>2,549,997</b>	<b>2,549,997</b>	-

19 Exposure to credit risk

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

	30 June 2020		30 June 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	268,410	(612)	258,318	(131)
Due from banks	175,454	(43)	225,728	(50)
Loans and advances to customers				
-WPB	475,954	(9,964)	496,083	(6,146)
-Wholesale	1,038,282	(42,846)	935,746	(26,634)
Other assets	29,279	(184)	23,896	(245)
<b>Total gross carrying amount on balance sheet</b>	<b>1,987,379</b>	<b>(53,649)</b>	<b>1,939,771</b>	<b>(33,206)</b>
Loans and other credit related commitments	668,764	(3,901)	754,998	(958)
<b>Total nominal amount off balance sheet</b>	<b>668,764</b>	<b>(3,901)</b>	<b>754,998</b>	<b>(958)</b>
	<b>Fair Value RO'000</b>	<b>Memorandum allowance for ECL RO'000</b>	<b>Fair Value RO'000</b>	<b>Memorandum allowance for ECL RO'000</b>
Financial investments at FVOCI	418,475	(876)	514,791	(87)

20 Share capital

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

	30 June 2020	30 June 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)

**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.

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

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

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

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

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

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

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
<b>30 June 2020</b>					
Loans and advances	-	-	345	101,864	102,209
Current, deposit and other accounts	-	2,896	1,224	19,256	23,376
Letters of credit and guarantees	-	137,565	-	11,417	148,982
Acceptances	-	-	-	8,498	8,498
Due from banks	-	59,560	-	-	59,560
Due to banks*	-	18,010	-	-	18,010
Collateral received	-	114,092	-	-	114,092
<b>For the period ended 30 June 2020</b>					
Net fee income**	-	(258)	-	-	(258)
Other operating expenses	-	(7,075)	(9)	(627)	(7,711)
Purchase of property and equipment	-	-	-	(5)	(5)

\*Due to banks includes Vostro balances of RO14.1 M from HSBC affiliates and accrual of RO3.8 M for the expenses payable to HSBC Affiliates as of 30 June 2020.

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

Notes to the unaudited interim condensed financial information (continued)

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
30 June 2019					
Loans and advances	-	-	365	114,158	114,523
Current, deposit and other accounts	-	2,948	465	12,292	15,705
Letters of credit and guarantees	-	121,614	-	13,969	135,583
Acceptances	-	-	-	1,132	1,132
Due from banks	-	35,845	-	-	35,845
Due to banks*	-	26,074	-	-	26,074
Collateral received	-	129,296	-	-	129,296
For the period ended 30 June 2019					
Net fee income**	-	(424)	-	-	(424)
Other operating expenses	-	(6,095)	(11)	(572)	(6,678)
Purchase of property and equipment	-	-	-	(23)	(23)

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

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

	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 (30 June 2019: RO14.6 M 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 4.5% p.a. and 4.8% p.a. (30 June 2019: between 3.75% p.a. and 4.70% p.a.). Related party deposits bear interest at rates between 0.1% p.a. and 0.2% p.a. (30 June 2019: between 1.7% p.a. and 2.0% p.a.).

Compensation of key management personnel

	Six month period ended 30 June 2020 RO'000	Six month period ended 30 June 2019 RO'000
Wages, salaries and other short term benefits	870	847
Post-employment benefits	48	42
	<b>918</b>	<b>889</b>

Notes to the unaudited interim condensed financial information (continued)

23 Operating segments

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

	30 June 2020				Total RO'000
	CMB RO'000	WPB RO'000	GB&M RO'000	Corporate centre RO'000	
Net interest income					
- External	4,842	13,824	8,972	(155)	27,483
- Internal	3,153	497	(3,662)	12	-
	<u>7,995</u>	<u>14,321</u>	<u>5,310</u>	<u>(143)</u>	<u>27,483</u>
Net fee income	1,308	1,462	1,568	(76)	4,262
Net trading income	2,001	1,195	2,236	-	5,432
Changes in fair value of financial investments measured at fair value through profit and loss	(52)	(81)	(47)	-	(180)
Other operating income	4	4	4	(29)	(17)
Total operating income	<u>11,256</u>	<u>16,901</u>	<u>9,071</u>	<u>(248)</u>	<u>36,980</u>
Change in expected credit losses and other credit impairment charges	(4,541)	(3,084)	(9,682)	-	(17,307)
Net operating income	<u>6,715</u>	<u>13,817</u>	<u>(611)</u>	<u>(248)</u>	<u>19,673</u>
Total operating expenses	<u>(5,476)</u>	<u>(14,523)</u>	<u>(3,326)</u>	<u>(257)</u>	<u>(23,582)</u>
Loss before tax	<u>1,239</u>	<u>(706)</u>	<u>(3,937)</u>	<u>(505)</u>	<u>(3,909)</u>
Reportable segment assets	<u>996,595</u>	<u>639,770</u>	<u>639,076</u>	<u>127,359</u>	<u>2,402,800</u>
Reportable segment liabilities	<u>1,054,038</u>	<u>641,439</u>	<u>356,495</u>	<u>18,785</u>	<u>2,070,757</u>

	30 June 2019				Total RO'000
	CMB RO'000	WPB RO'000	GB&M RO'000	Corporate centre RO'000	
Net interest income					
- External	5,180	14,607	10,887	(102)	30,572
- Internal	4,337	36	(4,090)	(283)	-
	<u>9,517</u>	<u>14,643</u>	<u>6,797</u>	<u>(385)</u>	<u>30,572</u>
Net fee income	1,153	2,240	2,144	(73)	5,466
Net trading income	3,660	1,819	2,848	(15)	8,312
Changes in fair value of financial investments measured at fair value through profit and loss	(23)	(34)	(22)	-	(79)
Other operating income	5	20	5	560	590
Total operating income	<u>14,314</u>	<u>18,688</u>	<u>11,772</u>	<u>87</u>	<u>44,861</u>
Change in expected credit losses and other credit impairment charges	(427)	2,648	97	-	2,318
Net operating income	<u>13,887</u>	<u>21,336</u>	<u>11,869</u>	<u>87</u>	<u>47,179</u>
Total operating expenses	<u>(5,946)</u>	<u>(14,737)</u>	<u>(3,319)</u>	<u>(173)</u>	<u>(24,175)</u>
Profit before tax	<u>7,941</u>	<u>6,599</u>	<u>8,550</u>	<u>(86)</u>	<u>23,004</u>
Reportable segment assets	<u>1,068,518</u>	<u>700,818</u>	<u>604,708</u>	<u>90,222</u>	<u>2,464,266</u>
Reportable segment liabilities	<u>1,115,571</u>	<u>597,020</u>	<u>383,585</u>	<u>26,861</u>	<u>2,123,037</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 bank is required to maintain minimum capital adequacy ratio of 12.25% including capital conservation buffer for 2020 (30 June 2019: 13.5% and 31 December 2019: 13.5%) in accordance with CBO stipulated guidelines.

Further to above; CBO issued the guidance on 3 June 2020 related to “Covid-19 - CBO Measures and IFRS-9 Application” where CBO introduced the “prudential filter” under interim adjustment arrangement for stage 1 and stage 2 ECL computed under IFRS9 to add as part of regulatory capital under Tier 2.

Accordingly, 100% Stage 1 ECLs shall continue to be added back to Tier 2 Capital. For stage 2 ECLs of base year (as of 31 December 2019) will continue to get earlier phase-out arrangement (i.e. 40% for 2020 and 20% for 2021) and incremental Stage 2 ECLs of 2020 to be added back 100% in 2020 and same will be phase-out by 2024.

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
CET 1 / Tier 1 capital	<b>325,276</b>	318,915	330,300
Tier 2 capital (T2)	<b>22,862</b>	10,592	14,503
<b>Total regulatory capital</b>	<b>348,138</b>	329,507	344,803
Risk-weighted assets	<b>1,828,631</b>	1,775,485	1,834,582
CET 1 / Tier 1 capital ratio	<b>17.79%</b>	17.96%	18.00%
Total capital ratio	<b>19.04%</b>	18.56%	18.79%

If the bank would not have applied the prudential filter as explained above, the Capital adequacy ratio for 30 June 2020 works out as below;

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000	31 December 2019 RO'000
CET 1 / Tier 1 capital	<b>325,276</b>	318,915	330,300
Tier 2 capital (T2)	<b>18,212</b>	10,592	14,503
<b>Total regulatory capital</b>	<b>343,488</b>	329,507	344,803
Risk-weighted assets	<b>1,828,631</b>	1,775,485	1,834,582
CET 1 / Tier 1 capital ratio	<b>17.79%</b>	17.96%	18.00%
Total capital ratio	<b>18.78%</b>	18.56%	18.79%

**25 Cash and cash equivalents**

<b>25(a) Non-cash items included in profit before tax</b>	<b>Notes</b>	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000
Changes in fair value of financial investments measured at fair value through profit and loss	<b>10</b>	<b>180</b>	(636)
Change in expected credit losses and other credit impairment charges	<b>5</b>	<b>17,307</b>	(2,318)
Depreciation of property and equipment		<b>1,273</b>	1,153
Amortisation of intangible assets	<b>7</b>	<b>327</b>	1,038
Amortisation of discount on financial investment		<b>(116)</b>	(177)
Employer's current service cost with interest		<b>109</b>	123
Loss / (gain) on disposal of property and equipment		<b>38</b>	(547)
		<b>19,118</b>	(1,364)

Notes to the unaudited interim condensed financial information (continued)

	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000
<b>25(b) Change in operating assets</b>		
Change in loans and advances to customers-net	<b>24,001</b>	(7,172)
Change in other assets	<b>(4,170)</b>	(647)
	<b>19,831</b>	(7,819)
<b>25(c) Change in operating liabilities</b>		
Change in deposits from customers	<b>(157,012)</b>	100,957
Change in other liabilities	<b>20,437</b>	(821)
	<b>(136,575)</b>	100,136
<b>25(d)</b> 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:		
	<b>30 June 2020 RO'000</b>	30 June 2019 RO'000
Unaudited interim condensed statement of financial position comprise:		
Cash and balances with central bank	<b>267,798</b>	258,187
Due from banks	<b>175,411</b>	225,678
Financial investments - original maturities of three months or less	<b>310,531</b>	419,618
Due to banks	<b>(69,600)</b>	(43,241)
	<b>684,140</b>	860,242

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 2020 (for 30 June 2019: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 30 June 2020 was 214% (30 June 2019 – 223%)

**Liquidity coverage ratio disclosure for the period ended 30 June 2020:**

	<b>30 June 2020</b>	
	<b>Total Unweighted Value (average*) RO'000</b>	<b>Total Weighted Value (average*) RO'000</b>
<b>High quality liquid assets</b>		
1 Total High quality liquid assets (HQLA)		<b>594,578</b>
<b>Cash outflows</b>		
Retail deposits and deposits from small business customers, of		
2 which:	<b>611,280</b>	<b>44,788</b>
3 - Stable deposits	<b>326,814</b>	<b>16,341</b>
4 - Less stable deposits	<b>284,466</b>	<b>28,477</b>
5 Unsecured wholesale funding, of which:	<b>1,060,114</b>	<b>456,933</b>
- Operational deposits (all counterparties) and deposits in		
6 networks of cooperative banks	-	-
7 - Non-operational deposits (all counterparties)	<b>1,060,114</b>	<b>456,933</b>
8 - Unsecured debt	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which	<b>80,336</b>	<b>7,928</b>
- 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	<b>80,336</b>	<b>7,928</b>
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	<b>1,174,233</b>	<b>58,712</b>
<b>16 Total cash outflows (2+5+10+15)</b>		<b>568,361</b>
<b>Cash inflows</b>		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	<b>317,616</b>	<b>290,424</b>
19 Other cash inflows	-	-
<b>20 Total cash inflows (17+18+19)</b>	<b>317,616</b>	<b>290,424</b>
<b>21 Total HQLA</b>		<b>594,578</b>
<b>22 Total net cash outflows (16-20)</b>		<b>277,937</b>
<b>23 Liquidity coverage ratio (21/22)</b>		<b>214%</b>

\*simple average of daily observations over the last three month (Apr – Jun 2020).



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 became effective from 1 January 2018 with a minimum ratio of 100%. The Bank's NSFR as of 30 June 2020 was 143% (30 June 2019 – 145%)

**Net Stable Funding Ratio disclosure for the period ended 30 June 2020:**

Available Stable funding (ASF) items		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	354,907	-	-	-	354,907
2	Regulatory capital	352,359	-	-	-	352,359
3	Other capital instruments	2,548	-	-	-	2,548
4	Retail deposits and deposits from small business customers	595,162	10,027	10,113	16,137	586,389
5	Stable deposits	329,436	72	72	-	313,102
6	Less stable deposits	265,726	9,955	10,041	16,137	273,287
7	Wholesale funding:	871,815	152,611	7,885	320,294	836,449
8	Operational deposits	69,600	-	-	-	34,800
9	Other wholesale funding	802,215	152,611	7,885	320,294	801,649
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	58,332	25,751	3,528	-	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in above categories	58,332	25,751	3,528	-	-
<b>14</b>	<b>Total ASF</b>	-	-	-	-	<b>1,777,745</b>
<b>Require Stable Funding (RSF) items</b>						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	20,911
16	Deposits held at other financial institutions for operational purposes	45,168	-	-	-	22,584
17	Performing loans and securities:	2,205	673,760	9,004	877,508	1,057,132
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	-	130,285	-	-	19,543
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	-	541,080	7,928	769,770	942,527
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	49,097	31,913
22	Performing residential mortgages, of which:	-	2,395	1,076	107,738	61,275
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	2,395	1,076	91,599	59,539

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	2,205	-	-	-	1,874
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	35,321	34,533	-	10,301	83,683
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	8,782	8,872
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	35,321	25,751	3,528	10,301	74,901
32	Off-balance sheet items	-	681,835	53,388	483,596	60,941
33	TOTAL RSF	-	-	-	-	1,245,250
34	<b>NET STABLE FUNDING RATIO (%)</b>	-	-	-	-	142.76

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 became effective from 31 December 2018 with a minimum ratio of 4.5%. The Bank's leverage ratio as of 30 June 2020 was 11.4% (30 June 2019 – 10.9%)

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

	Item	As at 30.06.2020
1	Total consolidated assets as per published financial statements	2,402,800
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	16,725
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)	439,377
7	Other adjustments	(3,836)
<b>8</b>	<b>Leverage ratio exposure</b>	<b>2,855,066</b>

**Table 2: Leverage ratio common disclosure template**

	Item	As at 30.06.2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,402,799
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,836)
3	<b>Total on-balance sheet exposures</b> (excluding derivatives and SFTs) (sum of lines 1 and 2)	<b>2,398,963</b>
	<b>Derivative Exposures</b>	
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	11,948
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	4,777
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	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>16,725</b>
	<b>Securities financing transaction exposures</b>	
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	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	<b>-</b>
	<b>Other Off-balance sheet exposures</b>	
17	Off-balance sheet exposure at gross notional amount	1,189,539
18	(Adjustments for conversion to credit equivalent amounts)	(750,161)
19	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	<b>439,378</b>
	<b>Capital and total exposures</b>	
20	<b>Tier 1 capital</b>	<b>325,276</b>
21	<b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>2,855,066</b>
	<b>Leverage Ratio</b>	
22	<b>Basel III leverage ratio (%)</b>	<b>11.4</b>

**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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