

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 September 2020



Interim Condensed Financial Information – 30 September 2020

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Presentation of information

This document comprises the Interim Condensed Financial Information – 30 September 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 nine months ended 30 September 2020

Dear Shareholders,

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

Performance Summary

Our year to date performance shows a net profit of RO0.3 M compared with RO25.8 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 we observed a relative relaxation relating to the movement of people and the lockdown in Oman, we continue to monitor how the situation will evolve through the remainder of 2020 especially with the recent increase in the number of infected cases.

Net interest income was down 8.8% to RO41.5 M for the period ended 30 September 2020 compared with RO45.5 M for the same period in 2019. Tight liquidity in the market is pushing up the cost of deposits while the fall in risk free rates results in lower interest income from the floating-rate assets. Net fee income stood at RO6.2 M for the period ended 30 September 2020 compared with RO7.9 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 39.5% to RO7.2 M compared with RO11.9 M for the same period last year, owing largely to the lower yield on FX swaps and the decrease in commercial surplus.

A net charge of RO19.1 M has been reported for the Bank's ECL and other credit impairment charges compared with a net release of RO1.0 M for the same period last year. Wholesale's ECL was up RO13.9 M while Retail's ECL was up RO6.2 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 1.9% to RO35.5 M compared with RO36.2 M for the same period in 2019.

Loans and advances to customers decreased by 8.0% to RO1,358.5 M compared with RO1,477.1 M as at 30 September 2019.

Customer deposits decreased by 3.3% to RO1,923.2 M compared to the same period last year. Our liquidity remains strong, as evidenced by an Advances to Deposit ratio (ADR) of 70.6% at the end of September 2020.

HBON's Capital Adequacy Ratio (CAR) stood at 21.4% as at 30 September 2020 compared with 18.4% as at 30 September 2019.

Delivering the best customer experience

We continue to support our customers during these difficult times, staying connected and supporting them through all of our different digital channels. In the 3rd quarter of 2020 we have embarked upon a few key strategic initiatives that aim to transform our operating model focusing on remote/ non-branch needs fulfillment of our retail customers and managing customers through an omni channel relationship management model.

We also introduced a new criteria for customers to become eligible for some of the exclusive benefits of HSBC's Advance proposition, reducing the minimum monthly salary requirement from RO 700 to a minimum monthly salary of RO 500. We launched an Employee Benefit Solutions (EBS) program for our commercial and global banking relationship clients, aiming to strengthen our relationships and laying the foundation of future growth with collaboration.

The relief measures continued to be in place for our customers impacted by COVID-19 including the deferral of loan installments and fee waivers. We are also reviewing our policies related to lending and expanding into select segments of the market. This will enable us to grow our business sustainably.

On the Digital front, we released one of the most awaited projects mandated by the CBO, Mobile Payment Clearing and Switching System (MPCSS), in three phases. Our ATM fleet replacement and rationalization has also begun aiming to introduce state of the art technology and the availability of various new transactional capabilities for our customers.

In the Wholesale business we witnessed the continued transformation of our business through our digital drive. The challenges presented by COVID-19 have resulted in many of our customers embracing our digital solutions for the first time. We successfully launched the HSBCnet Mobile App and Trade Transaction Tracker, and hosted a client webinar to educate our customers about the benefits of these applications for their businesses.

With 98.35% of payment transactions now being processed online, smart forms and cheque usage are at all-time lows. Similarly on the trade side, over 80% of transactions are being initiated online via ITS, up from just 32% at the start of the year.

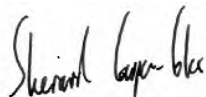
With the launch of GetRate, a one of its kind offering in Oman and a feature within HSBCnet, our corporate customers are able to view and accept real time FX rates when making international payments or inter-account transfers entailing currency conversions.

Supporting clients during COVID-19 under the new work-from-home environment has proven to be a great success. This has been acknowledged by some of our key clients, who shared their candid views during the 'Together we are stronger' campaign.

Conclusion

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

On behalf of the Board of Directors I would like to express my sincere gratitude to His Majesty Sultan Haitham bin Tariq, and we affirm our full support to the Omani government at all times.



Sir Sherard Cowper-Coles
Chairman

Summary of unaudited results for the nine month period ended 30 September 2020

	30 September 2020	30 September 2019	
	RO'000	RO'000	Change (%)
Loans and advances to customers - net	1,358,505	1,477,078	(8.0)%
Customer deposits	1,923,248	1,988,781	(3.3)%
Net assets	336,745	348,299	(3.3)%
* Net assets per share	0.168	0.174	(3.4)%
	Nine month period ended	Nine month period ended	
	30 September 2020	30 September 2019	Change (%)
	RO'000	RO'000	
Net interest income	41,540	45,533	(8.8)%
Profit for the period	304	25,770	(98.8)%
** Earnings per share (annualised)	-	0.017	(100.0)%
*** Capital adequacy ratio (CAR)	21.35%	18.41%	2.94%

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

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

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

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of **HSBC Bank Oman SAOG (the Bank)** as of 30 September 2020, and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the nine 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
25 October 2020



Unaudited interim condensed statement of comprehensive income for the Nine month period ended 30 September 2020

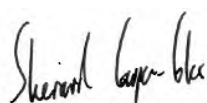
		Three month period ended 30 September 2020 RO'000	Three month period ended 30 September 2019 RO'000	Nine month period ended 30 September 2020 RO'000	Nine month period ended 30 September 2019 RO'000
Interest income	3	17,266	19,566	53,924	57,034
Interest expense	4	(3,209)	(4,605)	(12,384)	(11,501)
Net interest income		14,057	14,961	41,540	45,533
Fee income		2,708	3,464	8,687	10,976
Fee expense		(818)	(993)	(2,535)	(3,039)
Net fee income		1,890	2,471	6,152	7,937
Net trading income		1,744	3,626	7,176	11,938
Changes in fair value of financial investments measured at fair value through profit and loss		105	20	(75)	(59)
Dividend income		-	-	11	19
Other operating income - net		(1)	42	(29)	613
Net operating income before loan impairment charges and other credit risk provisions		17,795	21,120	54,775	65,981
Change in expected credit losses and other credit impairment charges	5	(1,765)	(1,301)	(19,072)	1,017
Net operating income		16,030	19,819	35,703	66,998
Employee compensation and benefits		(5,651)	(5,980)	(16,798)	(17,563)
General and administrative expenses	6	(5,428)	(5,359)	(16,263)	(15,760)
Depreciation of property and equipment		(637)	(594)	(1,910)	(1,747)
Amortisation of intangible assets	7	(199)	(70)	(526)	(1,108)
Total operating expenses		(11,915)	(12,003)	(35,497)	(36,178)
Profit before tax		4,115	7,816	206	30,820
Taxation		(610)	(1,279)	98	(5,050)
Profit for the period		3,505	6,537	304	25,770
Other comprehensive income					
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		1,122	597	979	775
-Expected credit losses recognised in income statement		243	25	1,020	32
-Income tax		(168)	(89)	(147)	(116)
Other comprehensive gain for the period - net of tax		1,197	533	1,852	691
Total comprehensive income for the period		4,702	7,070	2,156	26,461
Earnings per share – basic and diluted	8				
-for the period (RO)		0.002	0.003	0.000	0.013
-annualised (RO)		0.007	0.013	0.000	0.017

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

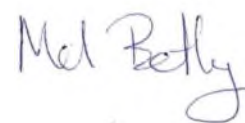
Unaudited interim condensed statement of financial position as at 30 September 2020

		At 30 September 2020	At 30 September 2019	Audited At 31 December 2019
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		420,714	214,498	281,186
Due from banks		240,949	251,059	205,595
Loans and advances to customers - net	9	1,358,505	1,477,078	1,502,734
Financial investments	10	267,360	459,823	488,085
Other assets	11	41,009	42,305	45,099
Intangible assets	12	2,393	1,675	1,572
Property and equipment	13	24,790	23,816	23,648
Deferred tax assets		1,991	1,782	2,078
Total assets		2,357,711	2,472,036	2,549,997
Liabilities and equity				
Liabilities				
Due to banks		43,444	78,507	54,754
Deposits from customers	14	1,923,248	1,988,781	2,071,457
Other liabilities	15	51,826	49,746	64,407
Current tax liabilities		2,448	6,634	7,387
Deferred tax liabilities		-	69	-
Total liabilities		2,020,966	2,123,737	2,198,005
Equity				
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)	2,469	501	617
Retained earnings		88,301	104,751	105,400
Net equity		336,745	348,299	351,992
Total liabilities and equity		2,357,711	2,472,036	2,549,997
Net assets per share - RO		0.168	0.174	0.176
Off-balance sheet items:				
Contingent liabilities and commitments				
- Documentary credits		43,983	67,788	97,014
- Guarantees and performance bonds		524,415	503,853	535,007
- Others	16	893,473	1,256,328	1,093,526
		1,461,871	1,827,969	1,725,547

The interim condensed financial information were authorised for issue on 25 October 2020 in accordance with the resolution of the Board of Directors.



Sir Sherard Cowper-Coles
Chairman



Melika Betley
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 nine month period ended 30 September 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	-	-	-	25,770	25,770
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	691	-	691
Total other comprehensive income for the period	-	-	691	-	691
Total comprehensive income for the period	-	-	691	25,770	26,461
Transaction with shareholders, recorded directly in equity					
Dividend for 2018	-	-	-	(18,603)	(18,603)
At 30 September 2019	200,031	43,016	501	104,751	348,299
At 1 January 2020	200,031	45,944	617	105,400	351,992
Total comprehensive income for the period					
Profit for the period	-	-	-	304	304
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	1,852	-	1,852
Total other comprehensive income for the period	-	-	1,852	-	1,852
Total comprehensive income for the period	-	-	1,852	304	2,156
Transaction with shareholders, recorded directly in equity					
Dividend for 2019	-	-	-	(17,403)	(17,403)
At 30 September 2020	200,031	45,944	2,469	88,301	336,745

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

Unaudited interim condensed statement of cash flows for the nine month period ended
30 September 2020

		Nine month period ended 30 September 2020 RO'000	Nine month period ended 30 September 2019 RO'000
Cash flows from operating activities			
Profit before tax		206	30,820
Adjustments for:			
- non-cash items included in profit before tax	25(a)	21,667	1,305
-Change in operating assets	25(b)	129,247	(92,080)
-Change in operating liabilities	25(c)	(160,519)	64,289
-Tax paid		(5,240)	(6,020)
- Retirement benefits paid		(22)	(93)
Net cash used in operating activities		<u>(14,661)</u>	<u>(1,779)</u>
Cash flows from investing activities			
Purchase of financial investments		(127,820)	(53,770)
Proceeds from maturity of financial investments		180,869	34,749
Purchase of property, equipment and softwares	13	(3,431)	(2,041)
Proceeds from sale of property and equipment		-	1,450
Net cash generated from / (used in) investing activities		<u>49,618</u>	<u>(19,612)</u>
Cash flows used in financing activities			
Dividends paid		(17,403)	(18,603)
Net change in cash and cash equivalents		17,554	(39,994)
Cash and cash equivalents at the beginning of the period		797,388	794,391
Cash and cash equivalents at the end of the period	25(d)	<u>814,942</u>	<u>754,397</u>

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)

(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 3.54% for the nine month period ended 30 September 2020 (30 September 2019 – 3.62%).

	Nine month period ended 30 September 2020 RO'000	Nine month period ended 30 September 2019 RO'000
Loans and advances to customers	47,937	49,009
Financial investments	3,159	4,057
Due from banks	935	3,968
Others	1,893	-
	53,924	57,034

4 Interest expense

For the nine month period ended 30 September 2020, the average overall annualised cost of funds was 0.81% (30 September 2019 – 0.76%).

	Nine month period ended 30 September 2020	Nine month period ended 30 September 2019 RO'000
Deposits from customers	(12,071)	(11,258)
Due to banks	(160)	(1)
Others	(153)	(242)
	(12,384)	(11,501)

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

	Nine month period ended 30 September 2020 RO'000	Nine month period ended 30 September 2019 RO'000
- loans and advances to customer	(16,869)	724
- due from banks	(209)	5
- loan commitment and guarantees	(702)	289
- other financial assets	(272)	31
- financial investments at FVOCI	(1,020)	(32)
	(19,072)	1,017

Notes to the unaudited interim condensed financial information (continued)

6 General and administrative expenses

	Nine month period ended 30 September 2020 RO'000	Nine month period ended 30 September 2019 RO'000
Marketing and advertising*	(1,183)	(1,310)
Premises and equipment	(2,005)	(2,170)
Communications	(331)	(420)
Insurance	(810)	(782)
Other administrative expense	(11,934)	(11,078)
	(16,263)	(15,760)

*Marketing and advertising expenses for the current period include the RO0.9 M of "Mandoos Prize" draw expenses (30 September 2019: RO0.9 M).

7 Amortisation of intangible assets

	Nine month period ended 30 September 2020 RO'000	Nine month period ended 30 September 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	(526)	(156)
	(526)	(1,108)

8 Earnings per share – basic and diluted

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

	Nine month period ended 30 September 2020	Nine month period ended 30 September 2019	Year ended 31 December 2019
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Profit for the period / year (RO'000)	304	25,770	29,284
Earnings per share – basic and diluted (RO)			
- for the period / year	-	0.013	0.015
- annualised	-	0.017	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.

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
Overdrafts	165,081	148,977	172,654
Credit cards	26,332	28,803	33,720
Loans	1,146,930	1,298,893	1,280,726
Clean import loans	79,459	68,141	87,338
Bills discounted / purchased	7,382	8,900	9,024
Gross loans and advances	1,425,184	1,553,714	1,583,462
ECL Allowances	(54,015)	(35,546)	(38,776)
Reserved interest*	(12,664)	(41,090)	(41,952)
Net loans and advances	1,358,505	1,477,078	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:

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
At 1 January	38,776	35,502	35,502
Net remeasurement of ECL arising from transfer of stage	642	349	829
Net new lending and changes to risk parameters	17,936	1,305	4,118
Assets written off	(3,339)	(1,610)	(1,673)
At 30 September / 31 December	54,015	35,546	38,776
ECL charge for the period / year	(18,578)	(1,654)	(4,947)
Recoveries	1,709	2,378	3,216
Total ECL (charge) / release for the period / year	(16,869)	724	(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 September 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 nine month period ended is analysed below:

	30 September 2020 RO'000	30 September 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	2,536	3,356	4,356
Released to the statement of comprehensive income	(353)	(650)	(711)
Written off during the period/ year	<u>(31,471)</u>	<u>(508)</u>	<u>(585)</u>
Balance at the end of the period/ year	<u>12,664</u>	<u>41,090</u>	<u>41,952</u>

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

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
0-5%	1,021,056	1,026,949	1,087,850
5-7%	341,912	443,390	409,659
7-10%	28,178	35,767	34,424
10-13%	3,804	15,212	15,460
More than 13%	30,234	32,396	36,069
	<u>1,425,184</u>	<u>1,553,714</u>	<u>1,583,462</u>

Notes to the unaudited interim condensed financial information (continued)

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

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
0-6 months	312,916	410,767	437,591
6-12 months	35,114	29,274	30,081
1-3 years	263,807	56,447	53,582
3-5 years	140,585	309,671	324,718
More than 5 years	606,083	670,919	656,762
	1,358,505	1,477,078	1,502,734

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
Personal and consumer loans	464,552	498,700	494,310
Corporate and commercial			
Import trade	128,146	196,876	201,678
Construction	80,336	81,309	89,122
Manufacturing	191,440	220,722	206,833
Wholesale and retail trade	64,662	85,182	79,073
Electricity, gas, water, transportation and communication	72,535	65,074	85,811
Services	110,874	118,875	116,860
Mining and quarrying	41,240	170,038	169,153
Others	271,355	109,209	132,879
	960,588	1,047,285	1,081,409
Financial Institutions	44	7,729	7,743
Total gross loans and advances	1,425,184	1,553,714	1,583,462
ECL Allowances	(54,015)	(35,546)	(38,776)
Reserved interest	(12,664)	(41,090)	(41,952)
Net loans and advances	1,358,505	1,477,078	1,502,734
Non-performing loans (NPL)	47,721	68,734	70,767

The estimated fair value of loans and advances is RO1,320.3 M as of 30 September 2020 (30 September 2019 – RO1,436.3 M and 31 December 2019 – RO1,464.2 M).

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

As of 30 September 2020	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss charged to profit and loss account	(3,062)	(19,072)	(16,010)
Provisions required*	40,098	59,379	19,281
Gross NPL ratio (percentage)	3.35%	3.35%	-
Net NPL ratio (percentage)	1.04%	0.81%	(0.23)%

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

Notes to the unaudited interim condensed financial information (continued)

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as of 30 September 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	843,508	11,767	9,182	2,585	834,326	106
	Stage 2	517,388	5,264	15,985	(10,721)	501,403	896
Standard	Stage 3	-	-	-	-	-	-
		1,360,896	17,031	25,167	(8,136)	1,335,729	1,002
	Stage 1	164	2	10	(8)	154	
	Stage 2	15,776	165	2,567	(2,402)	13,209	27
Special mention	Stage 3	627	114	143	(29)	484	25
		16,567	281	2,720	(2,439)	13,847	52
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	2,384	596	1,333	(737)	1,051	131
		2,384	596	1,333	(737)	1,051	131
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	6,403	3,108	4,600	(1,492)	1,803	190
		6,403	3,108	4,600	(1,492)	1,803	190
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	38,934	19,082	20,195	(1,113)	18,739	11,289
		38,934	19,082	20,195	(1,113)	18,739	11,289
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,027,500	-	1,555	(1,555)	1,025,945	-
	Stage 2	576,041	-	3,547	(3,547)	572,494	-
	Stage 3	1,071	-	262	(262)	809	-
		1,604,612	-	5,364	(5,364)	1,599,248	-
	Stage 1	1,871,172	11,769	10,747	1,022	1,860,425	106
	Stage 2	1,109,205	5,429	22,099	(16,670)	1,087,106	923
	Stage 3	49,419	22,900	26,533	(3,633)	22,886	11,635
Total	Total	3,029,796	40,098	59,379	(19,281)	2,970,417	12,664

Notes to the unaudited interim condensed financial information (continued)

Restructured loans and advances (as per CBO illustrative disclosure) as of 30 September 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	3,000	30	11	19	2,989	-
	Stage 2	35,901	359	1,650	(1,291)	34,251	-
	Stage 3	627	114	143	(29)	484	-
Sub Total		39,528	503	1,804	(1,301)	37,724	25
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	14,707	8,350	10,098	(1,748)	4,609	427
		14,707	8,350	10,098	(1,748)	4,609	427
Total	Stage 1	3,000	30	11	19	2,989	-
	Stage 2	35,901	359	1,650	(1,291)	34,251	-
	Stage 3	15,334	8,464	10,241	(1,777)	5,093	452
Total		54,235	8,853	11,902	(3,049)	42,333	452

HSBC Bank Oman S.A.O.G.

Notes to the unaudited interim condensed financial information (continued)

10 Financial investments

Financial investments details are provided as follows:

	Fair value 30 September 2020 RO'000	Fair value 30 September 2019 RO'000	Fair value 31 December 2019 RO'000	Carrying value* 30 September 2020 RO'000	Carrying value 30 September 2019 RO'000	Carrying value 31 December 2019 RO'000	Cost 30 September 2020 RO'000	Cost 30 September 2019 RO'000	Cost 31 December 2019 RO'000
Marketable securities – MSM									
Government bonds	68,327	65,338	65,599	68,327	65,338	65,599	66,741	64,869	64,982
Unquoted and other investments									
Treasury bills	196,723	392,126	420,101	196,723	392,126	420,101	196,720	392,136	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	2,043	2,092	2,118	2,043	2,092	2,118	2,879	2,879	2,879
	199,033	394,485	422,486	199,033	394,485	422,486	199,866	395,282	423,253
Total	267,360	459,823	488,085	267,360	459,823	488,085	266,607	460,151	488,235

*ECL allowance on financial investments amounting to RO1.1 M (30 September 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 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	196,723	392,126	420,101
Government bonds	68,327	65,338	65,599
Other investments	250	250	250
	265,300	457,714	485,950
Financial investments measured at fair value through profit or loss			
Equity investments	2,060	2,109	2,135
	265,300	459,823	488,085

11 Other assets

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
Acceptances	22,597	21,115	34,282
ECL on acceptances	(168)	(31)	(52)
Acceptances (net of ECL)	22,429	21,084	34,230
Derivatives - positive mark-to-market	10,805	8,462	2,789
Prepayments and accrued income	340	573	808
Right-of-use assets	3,090	3,047	3,436
Others	4,345	9,139	3,836
	41,009	42,305	45,099

12 Intangible assets

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
Core deposits	-	12,306	12,306
Customer relationships	-	3,691	3,691
Softwares	3,594	2,294	2,294
	3,594	18,291	18,291
Less: amortised	(1,201)	(16,616)	(16,719)
	2,393	1,675	1,572

13 Property and equipment

RO2.1 M of property and equipment were added during the period (30 September 2019: RO0.5 M). Property and equipment disposed of during the period was RO1.8 M (30 September 2019: 4.5 M).

Notes to the unaudited interim condensed financial information (continued)

14 Deposits from customers

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
Deposits details are as follows:			
Current and call	1,008,526	960,743	978,775
Savings	420,325	394,574	392,825
Time deposits	489,759	631,103	697,179
Others	4,638	2,361	2,678
	1,923,248	1,988,781	2,071,457

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

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
0-6 months	710,899	790,372	798,907
6-12 months	267,566	263,083	305,221
1-3 years	201,124	164,110	217,706
3-5 years	376,121	381,890	369,953
Over 5 years	367,538	389,326	379,670
	1,923,248	1,988,781	2,071,457

The interest rate bands of deposits are as follows:

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
0-2%	1,529,866	1,550,760	1,571,699
2-5%	393,382	438,021	499,758
	1,923,248	1,988,781	2,071,457

15 Other liabilities

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
Derivatives – negative mark-to-market	64	188	1,023
Retirement benefit liability	1,440	1,324	1,309
Acceptances	22,597	21,115	34,282
Provisions	479	241	219
ECL on off balance sheet exposure and other commitments	3,457	813	2,754
Accruals and deferred income	4,367	5,773	5,525
Lease liabilities	2,390	2,733	2,772
Others	17,032	17,559	16,523
	51,826	49,746	64,407

Notes to the unaudited interim condensed financial information (continued)

16 Contingent liabilities, commitments and derivatives

	30	30	31
	September	September	December
	2020	2019	2019
	RO'000	RO'000	RO'000
Undrawn unconditionally cancellable commitments*	565,371	652,509	606,574
Undrawn unconditionally non-cancellable commitments	70,376	51,873	58,847
Forward foreign exchange contracts	88,326	357,906	239,455
Interest rate swaps	169,400	194,040	188,650
	893,473	1,256,328	1,093,526

*Undrawn unconditionally cancellable commitments of RO86.3 M (31 December 2019: RO85.3 M) are considered as part of loan commitments for IFRS 9.

As at 30 September 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
At 30 September 2020			
Assets			
Derivatives	-	10,805	10,805
Financial investments at fair value through other comprehensive income	156,745	108,555	265,300
Financial investments at fair value through profit or loss	-	2,060	2,060
Liabilities			
Derivatives	-	64	64
Deposits from customers	-	177,278	177,278
At 30 September 2019			
Assets			
Derivatives	-	8,462	8,462
Financial investments at fair value through other comprehensive income	197,721	259,993	457,714
Financial investments at fair value through profit or loss	-	2,109	2,109
Liabilities			
Derivatives	-	188	188
Deposits from customers	-	198,494	198,494
At 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.

Notes to the unaudited interim condensed financial information (continued)

18 Asset liability mismatch

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

Maturities	30 September 2020			30 September 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	1,181,859	804,773	377,086	1,277,260	924,471	352,789	1,358,337	921,487	436,850
6-12 months	43,349	268,258	(224,909)	80,999	288,891	(207,892)	80,601	335,719	(255,118)
1-3 years	284,366	201,124	83,242	61,629	164,117	(102,488)	60,048	217,706	(157,658)
3-5 years	184,341	376,121	(191,780)	343,208	381,890	(38,682)	357,242	369,953	(12,711)
more than 5 years	663,796	707,435	(43,639)	708,940	712,667	(3,727)	693,769	705,132	(11,363)
	2,357,711	2,357,711	-	2,472,036	2,472,036	-	2,549,997	2,549,997	-

Notes to the unaudited interim condensed financial information (continued)

19 Exposure to credit risk

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

	30 September 2020		30 September 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	421,081	(367)	214,662	(164)
Due from banks	241,202	(253)	251,103	(44)
Loans and advances to customers				
-WPB	463,185	(9,970)	497,501	(7,580)
-Wholesale	949,335	(44,045)	1,015,123	(27,966)
Other assets	22,597	(168)	21,881	(224)
Total gross carrying amount on balance sheet	2,097,400	(54,803)	2,000,270	(35,978)
Loans and other credit related commitments	654,682	(3,457)	681,108	(812)
Total nominal amount off balance sheet	654,682	(3,457)	681,108	(812)
	Fair Value RO'000	Memorandum allowance for ECL RO'000	Fair Value RO'000	Memorandum allowance for ECL RO'000
Financial investments at FVOCI	265,050	(1,119)	457,714	(112)

20 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 September 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 September 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 September 2020	30 September 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 institutions, we share in the expertise and economies of scale provided by the HSBC Group. The Bank provide and receive services or enter into transactions with a number of HSBC Group companies, including sharing in the cost of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas. These related party transactions are on terms similar to those offered to non-related parties.

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

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
30 September 2020					
Loans and advances	-	-	342	104,028	104,370
Current, deposit and other accounts	-	2,886	454	18,562	21,902
Letters of credit and guarantees	-	147,148	-	11,626	158,774
Acceptances	-	-	-	801	801
Due from banks	-	53,761	-	-	53,761
Due to banks*	-	21,708	-	-	21,708
Collateral received	-	94,888	-	-	94,888
For the period ended 30 September 2020					
Net fee income**	-	(356)	-	-	(356)
Other operating expenses	-	(10,904)	(15)	(916)	(11,835)
Purchase of property and equipment	-	-	-	(5)	(5)

*Due to banks includes Vostro balances of RO18.9 M from HSBC affiliates and accrual of RO2.7 M for the expenses payable to HSBC Affiliates as of 30 September 2020.

**Net fee income includes fee expenses of RO0.6 M incurred for the indemnity received as a collateral from HSBC affiliates.

Notes to the unaudited interim condensed financial information (continued)

	Parent entity	Other related group entities	Directors	Others	Total
30 September 2019	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	-	362	118,196	118,558
Current, deposit and other accounts	-	2,960	147	14,627	17,734
Letters of credit and guarantees	-	122,957	-	11,757	134,714
Acceptances	-	-	-	2,993	2,993
Due from banks	-	42,524	-	-	42,524
Due to banks*	-	21,925	-	-	21,925
Collateral received	-	130,164	-	-	130,164
For the period ended 30 September 2019					
Net fee income**	-	(583)	-	-	(583)
Other operating expenses	-	(9,419)	(15)	(996)	(10,430)
Purchase of property and equipment	-	-	-	(23)	(23)

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

**Net fee income includes fee expenses of RO0.8 M incurred for the indemnity received as a collateral from HSBC affiliates.

	Parent entity	Other related group entities	Directors	Others	Total
As at 31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000
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.

The Bank entered into the following transactions with HSBC affiliates noting that the underlying customers of these transactions were not related parties.

	30 September 2020	30 September 2019	31 December 2019
	RO'000	RO'000	RO'000
Sale of loans and advances	127,820	-	-
Fees paid in lieu of deposits raising activates	582	-	-
Purchase of loans and advances	-	14,577	14,577

Related party loans and advances bear interest at rates between 4.7% p.a. and 5.2% p.a. (30 September 2019: between 3.75% p.a. and 4.70% p.a.). Related party deposits bear interest at rates between 0.7% p.a. and 1% p.a. (30 September 2019: between 1.7% p.a. and 2.0% p.a.).

Notes to the unaudited interim condensed financial information (continued)

Compensation of key management personnel

	Nine month period ended 30 September 2020 RO'000	Nine month period ended 30 September 2019 RO'000
Wages, salaries and other short term benefits	1,342	1,263
Post-employment benefits	69	57
	1,411	1,320

23 Operating segments

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

	30 September 2020				
	CMB	WPB	GB&M	Corporate centre	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	8,892	20,630	12,317	(299)	41,540
- Internal	3,161	1,024	(4,258)	73	
	12,053	21,654	8,059	(226)	41,540
Net fee income	1,872	2,043	2,347	(110)	6,152
Net trading income	2,466	1,621	3,089	-	7,176
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(75)	(75)
Other operating income	(18)	(30)	(16)	46	(18)
Total operating income	16,373	25,288	13,479	(365)	54,775
Change in expected credit losses and other credit impairment charges	(5,399)	(3,910)	(9,763)	-	(19,072)
Net operating income	10,974	21,378	3,716	(365)	35,703
Total operating expenses	(8,431)	(21,930)	(4,861)	(275)	(35,497)
Profit / (Loss) before tax	2,543	(552)	(1,145)	(640)	206
Reportable segment assets	1,091,072	640,007	501,364	125,268	2,357,711
Reportable segment liabilities	976,533	633,738	389,442	21,253	2,020,966

Notes to the unaudited interim condensed financial information (continued)

	30 September 2019				Total RO'000
	CMB RO'000	WPB RO'000	GB&M RO'000	Corporate centre RO'000	
Net interest income					
- External	7,565	21,990	16,131	(153)	45,533
- Internal	6,046	393	(6,027)	(412)	-
	13,611	22,383	10,104	(565)	45,533
Net fee income	1,866	3,251	2,933	(113)	7,937
Net trading income	5,180	2,632	4,141	(15)	11,938
Changes in fair value of financial investments measured at fair value through profit and loss	(17)	(24)	(16)	(2)	(59)
Other operating income	3	16	50	563	632
Total operating income	20,643	28,258	17,212	(132)	65,981
Change in expected credit losses and other credit impairment charges	(1,427)	2,550	(106)	-	1,017
Net operating income	19,216	30,808	17,106	(132)	66,998
Total operating expenses	(9,170)	(21,711)	(4,766)	(531)	(36,178)
Profit / (Loss) before tax	10,046	9,097	12,340	(663)	30,820
Reportable segment assets	1,049,402	680,888	638,464	103,282	2,472,036
Reportable segment liabilities	1,123,924	580,001	387,618	32,194	2,123,737

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 September 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.

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
CET 1 / Tier 1 capital	325,102	318,529	330,300
Tier 2 capital (T2)	24,003	11,932	14,503
Total regulatory capital	349,105	330,461	344,803
Risk-weighted assets	1,635,138	1,795,153	1,834,582
CET 1 / Tier 1 capital ratio	19.88%	17.74%	18.00%
Total capital ratio	21.35%	18.41%	18.79%

Notes to the unaudited interim condensed financial information (continued)

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

	30 September 2020 RO'000	30 September 2019 RO'000	31 December 2019 RO'000
CET 1 / Tier 1 capital	325,102	318,529	330,300
Tier 2 capital (T2)	19,587	11,932	14,503
Total regulatory capital	344,689	330,461	344,803
Risk-weighted assets	1,635,138	1,795,153	1,834,582
CET 1 / Tier 1 capital ratio	19.88%	17.74%	18.00%
Total capital ratio	21.08%	18.41%	18.79%

25 Cash and cash equivalents

25(a) Non-cash items included in profit before tax	Notes	30 September 2020 RO'000	30 September 2019 RO'000
Changes in fair value of financial investments measured at fair value through profit and loss	10	75	59
Change in expected credit losses and other credit impairment charges	5	19,072	(1,017)
Depreciation of property and equipment		1,910	1,747
Amortisation of intangible assets	7	526	1,108
Amortisation of discount on financial investment		(107)	(216)
Employer's current service cost with interest		153	171
Loss / (gain) on disposal of property and equipment		38	(547)
		21,667	1,305

25(b) Change in operating assets	30 September 2020 RO'000	30 September 2019 RO'000
Change in loans and advances to customers-net	125,157	(86,502)
Change in other assets	4,090	(5,578)
	129,247	(92,080)

25(c) Change in operating liabilities	30 September 2020 RO'000	30 September 2019 RO'000
Change in deposits from customers	(148,209)	62,656
Change in other liabilities	(12,310)	1,633
	(160,519)	64,289

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

	30 September 2020 RO'000	30 September 2019 RO'000
Unaudited interim condensed statement of financial position comprise:		
Cash and balances with central bank	420,714	214,498
Due from banks	240,949	251,059
Financial investments - original maturities of three months or less	196,723	367,347
Due to banks	(43,444)	(78,507)
	814,942	754,397

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 September 2019: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 30 September 2020 was 200% (30 September 2019 – 218%)

Liquidity coverage ratio disclosure for the period ended 30 September 2020:

	30 September 2020	
	Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets		
1 Total High quality liquid assets (HQLA)		540,920
Cash outflows		
2 Retail deposits and deposits from small business customers, of which:		
3 - Stable deposits	628,076	46,272
4 - Less stable deposits	330,705	16,535
5 Unsecured wholesale funding, of which:	297,371	29,737
6 - Operational deposits (all counterparties) and deposits in networks of cooperative banks	895,503	400,695
7 - Non-operational deposits (all counterparties)	-	-
8 - Unsecured debt	-	-
9 Secured wholesale funding		
10 Additional requirements, of which	65,365	6,443
11 - Outflows related to derivative exposures and other collateral requirements	-	-
12 - Outflows related to loss of funding on debt products	-	-
13 - Credit and liquidity facilities	65,365	6,443
14 Other contractual funding obligations	952	952
15 Other contingent funding obligations	1,161,087	58,054
16 Total cash outflows (2+5+10+15)		512,417
Cash inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	260,983	240,888
19 Other cash inflows	952	952
20 Total cash inflows (17+18+19)	261,934	241,839
21 Total HQLA		540,920
22 Total net cash outflows (16-20)		270,577
23 Liquidity coverage ratio (21/22)		200%

*simple average of daily observations over the last three month (July – September 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 September 2020 was 148% (30 September 2019 – 139%)

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

	Available Stable funding (ASF) items	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	360,749	-	-	-	360,749
2	Regulatory capital	353,500	-	-	-	353,500
3	Other capital instruments	7,249	-	-	-	7,249
4	Retail deposits and deposits from small business customers	594,012	13,710	4,634	16,499	583,853
5	Stable deposits	324,522	105	36	-	308,430
6	Less stable deposits	269,490	13,605	4,598	16,499	275,423
7	Wholesale funding:	936,267	80,636	19,891	301,044	819,441
8	Operational deposits	43,444	-	-	-	21,722
9	Other wholesale funding	892,823	80,636	19,891	301,044	797,719
10	Liabilities with matching interdependent assets					
11	Other liabilities:	35,880	22,209	388	-	-
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	35,880	22,209	388	-	-
14	Total ASF					1,764,043
	Require Stable Funding (RSF) items					
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	13,253
16	Deposits held at other financial institutions for operational purposes	55,332	-	-	-	27,666
17	Performing loans and securities:	2,310	618,161	22,851	876,261	1,013,316
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	-	185,942	-	-	27,891
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	-	430,440	22,016	767,009	890,804
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	46,132	29,986
22	Performing residential mortgages, of which:	-	1,779	835	109,252	62,672
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	1,779	835	94,407	61,365

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	2,310	-	-	-	1,964
25	Assets with matching interdependent liabilities					
26	Other Assets:	34,487	32,950		11,417	79,242
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				10,741	10,741
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	34,487	22,209	388	11,417	68,501
32	Off-balance sheet items	-	655,049	41,332	530,361	61,337
33	TOTAL RSF					1,194,814
34	NET STABLE FUNDING RATIO (%)					147.64

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 September 2020 was 11.7% (30 September 2019 – 10.9%)

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

	Item	As at 30.09.2020
1	Total consolidated assets as per published financial statements	2,357,711
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	12,528
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)	424,368
7	Other adjustments	(4,384)
8	Leverage ratio exposure	2,790,223

Table 2: Leverage ratio common disclosure template

	Item	As at 30.09.2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,357,711
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(4,384)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,353,327
	Derivative Exposures	
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	10,805
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	1,723
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	12,528
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	Other Off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	1,204,145
18	(Adjustments for conversion to credit equivalent amounts)	(779,777)
19	Off-balance sheet items (sum of lines 17 and 18)	424,368
	Capital and total exposures	
20	Tier 1 capital	325,102
21	Total exposures (sum of lines 3, 11, 16 and 19)	2,790,223
	Leverage Ratio	
22	Basel III leverage ratio (%)	11.7

29 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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