HSBC Bank Oman S.A.O.G

Annual Report and Account 2020

A bank fit for the **future**

HSBC

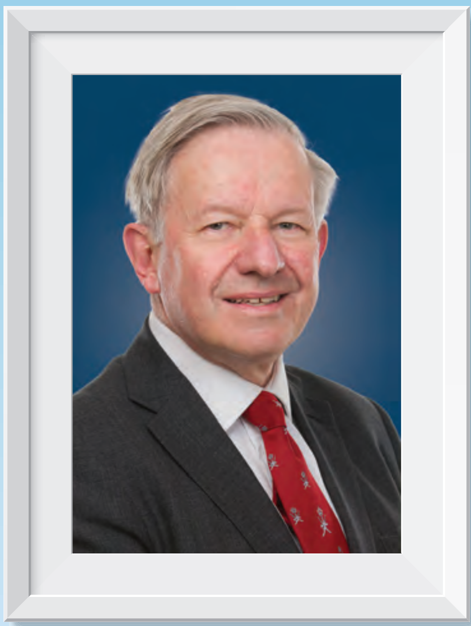
Together we thrive

Welcome to
HSBC Bank Oman's
Annual Report for
2020

His Majesty Sultan Haitham bin Tarik

Contents

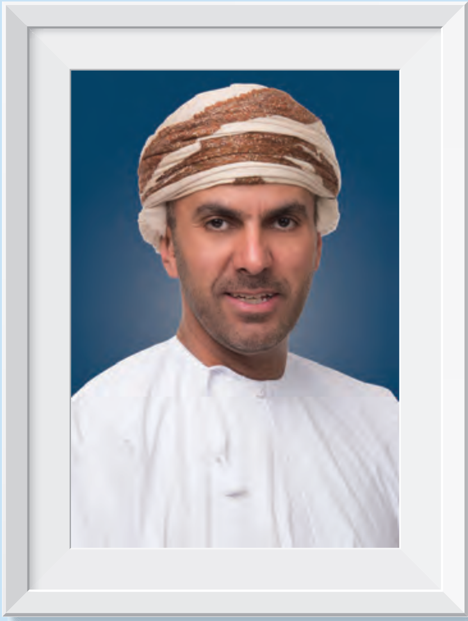
BOARD OF DIRECTORS



Sir Sherard Cowper-Coles
Chairman

Waleed Omar Al Zawawi
Deputy Chairman and Director

Dr. Juma Ali Juma Al Juma
Senior Independent Director



Sheikh Aimen Ahmed Al Hosni
Director

Abdulfattah Sharaf
Director

Paul Lawrence
Director

Christine Lynch
Director

Melika Betley
Chief Executive Officer

Sulaiman Al Lamki
General Manager and Chief Risk Officer

Ali Al Abri
General Manager and Head of Human Resources & Government Affairs

Simon R Adcock
General Manager and Head of Commercial Banking

Ahmed El Damaty
General Manager and Chief Financial Officer

Abdul Qader Al Sumali
General Manager and Head of Wealth & Personal Banking

Saud Al Shidhani
Chief Operating Officer

Biju Thottingal
General Manager, Legal

Alyson Henshaw
Assistant General Manager and Head of Global Banking

Khalid Al Mahari
Assistant General Manager and Head of Regulatory Compliance

Pierre El Ahmar
Assistant General Manager and Head of Treasury

Paramita Sen
Assistant General Manager & Head of Financial Crime Compliance

Sameh Al Wahaibi
Assistant General Manager and Head of Communications and Corporate Sustainability

Shailaja Bengalli
Assistant General Manager and Head of Internal Audit

Rahma Al Busaidi
Company Secretary

Board of Directors’ Report for the year ended 31 December 2020

Dear Shareholders,

On behalf of the Board of Directors, I would like to present your Bank’s full year financial results for 2020.

Performance Summary

Our performance shows a net loss of RO8.2 M for the year ended 31 December 2020 compared with a net profit of RO29.3 M for 2019. This has been driven mainly by the increase in the Expected Credit Losses (‘ECL’) and other credit impairment charges, reflecting the challenging economic environment following the outbreak of the COVID-19 pandemic and the drop in the oil price, lower revenues impacted by the low interest rate environment, and an impairment charge on our non-financial assets. While we have seen a relaxation relating to the movement of people and the opening of economic activity, we will continue to monitor the situation in 2021, especially in the light of recent concerns about new coronavirus variants as the rollout of the COVID-19 vaccine continues in various parts of the world.

Net interest income was down 11.1% to RO53.8 M for the year compared with RO60.5 M for the same period in 2019. Interest income was impacted negatively by the low interest rate environment and the upward trend in cost of deposits, which has resulted in a margin squeeze. Net fee income was RO8.1 M for the period ended 31 December 2020 compared with RO11.0 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 38.6% to RO8.9 M compared with RO14.5 M for the same period in 2019, owing largely to low interest rates and a decrease in the commercial surplus.

A net charge of RO18.0 M has been reported for the Bank’s ECL and other credit impairment charges compared with a net charge of RO3.4 M for the same period last year. Wholesale’s ECL were up RO8.7 M while Retail’s ECL were up RO5.9 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 rose by 25.8% to RO61.0 M compared with RO48.5 M for 2019 owing to a RO12.7 M impairment of non-financial assets, as stipulated by International Accounting Standard (IAS) 36 ‘Impairment of Assets’. This impairment charge reflected the deterioration in the future outlook and macroeconomic conditions.

Loans and advances to customers decreased by 9.3% to RO1,363.6 M compared with RO1,502.7 M as at 31 December 2019.

Customer deposits decreased by 8.0% to RO1,905.8 M compared with 2019 and, as intended, our liquidity remains the strongest in the market, as evidenced by an Advances to Deposit ratio (ADR) of 71.6% at the end of 2020.

HBON’s Capital Adequacy Ratio (CAR) stood at 20.9% for the year ended 31 December 2020 compared with 18.8% as at 31 December 2019.

Considering the unprecedented circumstances and the financial performance, the Board of Directors has not proposed a cash dividend for 2020

Delivering the best customer experience

In 2020, our Wealth & Personal Banking business (WPB) launched several campaigns targeting customer growth in the premium segment of the market. These included a fresh Mandoos scheme and “Step-up” savings account campaign. This was supplemented by the launch of an Employee Benefit Solutions (EBS) programme for our commercial and global banking relationship clients.

We also laid the foundation for some of the key initiatives aimed to place us back on a growth trajectory in 2021, with the focus on acquiring new customers and increasing our share of wallet in the market. This is backed up by competitive rates on loans and deepening the relationship with our top corporates under the EBS programme.

We rolled out a fresh customer experience improvement programme, ‘Smile’, covering the Bank’s entire staff population, which will help improve the customer focus of all of our staff from frontline to back-end processing.

Board of Directors' Report for the year ended 31 December 2020

On the Digital front, we launched a new mobile App at the beginning of the year, and we released the Mobile Payment Clearing and Switching System (MPCSS). We have also installed 57 new state of the art ATMs to provide an improved customer journey that offers greater functionality to our customers.

On the wholesale side of the business, we worked with our colleagues in HSBC Singapore to support the Asian subsidiary of OQ with another successful Blockchain trade finance pilot. We introduced several enhancements to our digital platforms, including the launch of the HSBCnet Mobile App, Trade Transaction Tracker and Get Rate. This has further demonstrated our capability to support Omani clients with digitising their cash management, trade finance and FX needs both in Oman and abroad.

We were also very proud to receive two awards from Euromoney. The first was the Best Investment Bank in Oman at the 2020 Euromoney Middle East Awards for Excellence, and the second was the Best Cash Management Bank in the Sultanate of Oman for the ninth consecutive year as voted for by corporates.

Our COVID-19 relief measures

We worked hard to maintain seamless support and services to our customers despite the challenges. Our contingency measures ensured that critical processes continued to be maintained by leveraging our split-site operations, work transfer arrangements and extensive homeworking capabilities. Through our digital channels, our customers were able to continue to manage their accounts and perform banking transactions from home using Online Banking, the HSBC Mobile Banking App, or Phone Banking.

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

We have also established relief measures for our retail and wholesale customers who have been impacted by COVID-19 including the deferring loan instalments and fee waivers.

Investing in our people and community

We remain committed to supporting the national people agenda and are proud to have maintained an Omanisation rate of 93% as at 31 December 2020, which is ahead of the 90% target set by the Central Bank of Oman (CBO). At the senior management level, the Omanisation rate is 80%, which is in line with CBO's threshold.

We continued to invest in our staff training programmes, and initiated a bank-wide 'Future Skills' programme in November 2020 to ensure that we are creating a Bank that is fit for the future by building the skills our employees need for the Bank to thrive. Staff engaged with experts on five strategic themes of Curiosity, Connectivity, Creativity, Resilience and Growth Mindset.

As part of our Corporate Sustainability commitment, and in coordination with charitable organisations such as Dar Al Atta and the Oman Charitable Organization, we made contributions to a range of projects in the Sultanate to help underprivileged families who had been impacted by COVID-19.

The disbursements helped provide relief and recovery to individuals and families impacted by COVID-19, as well as helping hospital workers to combat the virus. We also supported the Directorate General of Health in Muscat in conducting deep cleaning and disinfection of Al Amirat and Boushar Health Centers.

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

Conclusion

With the Government's heightened focus on fiscal reform and diversification of the economy, we remain positive about the opportunities for the year ahead. The 2021 budget and the 10th Five-Year plan set out bold measures to drive fiscal sustainability. We are confident that HSBC Oman is well positioned to contribute to the country achieving its long-term growth objectives. We also remain committed to continuing to deliver the level of service and support our customers expect from us.

On behalf of the Board of Directors, I would like to thank all our customers, staff and management for their commitment and dedication in what has been a year of unprecedented challenge. Special thanks also go to the CBO and the Capital Market Authority for their continued support and guidance.

In closing, I wish to express our deepest appreciation to His Majesty Sultan Haitham Bin Tariq. We offer our full support as His Majesty continues to lead the Sultanate to further prosperity and development.

Sir Sherard Cowper-Coles
Chairman

Building a future together

HSBC Bank Oman is committed to a stable, strong and sustainable future in the Sultanate.

A bank fit for the **future**

HSBC

Together we thrive

Deloitte.

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TO THE SHAREHOLDERS OF
HSBC BANK OMAN SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) Circular No. E/4/2015 dated 22 July 2015 with respect to the accompanying corporate governance report of **HSBC Bank Oman SAOG** as at and for the year ended 31 December 2020 and its application of corporate governance practices in accordance with CMA Code of Corporate Governance issued under Circular No. 4/2015 dated 22 July 2015 and amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Bank's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the corporate governance report issued by the Board of Directors and checked that the report of the Bank includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2. We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors with the Code, for the year ended 31 December 2020. The Bank's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of **HSBC Bank Oman SAOG** to be included in its annual report for the year ended 31 December 2020 and does not extend to any financial statements of **HSBC Bank Oman SAOG,** taken as a whole.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
4 March 2021

Corporate Governance Report
For the Annual Report 2020

To be where the growth is, connecting customers to opportunities; to enable businesses to thrive and the economy of the Sultanate of Oman to prosper; to help people fulfill their hopes and dreams and realise their ambitions.'

HBON mission and vision (purpose) statement

1. Governance philosophy

1.1 HBON's governance philosophy is based on the following principles:

- An effective and accountable Board of Directors;
- A clear and strategic direction for business development;
- Prudent accounting principles and information;
- Sound decision-making mechanisms;
- Strategy-linked performance evaluation; and
- Human resource development.

1.2 HBON's governance philosophy is embodied in the way HBON works and in how good corporate governance is applied to ensure that HBON:

- Has robust structures and procedures;
- Takes account of the needs and interests of all stakeholders; and
- Takes decisions in a balanced and transparent manner.

1.3 HBON seeks to apply best practice in corporate governance through clear values based on sound business principles, a governance philosophy embodied in the way HBON works and through complying with the letter and spirit of:

- The law;
- The Capital Market Authority ('CMA') Oman Code of Corporate Governance for Public Listed Companies, as amended from time to time, ('Code');
- The regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman ('CBO'); and
- The HSBC Group global standards, including the HSBC Corporate Governance Code.

1.4 The Board has implemented a Corporate Governance Framework ('Framework') which meets all local Oman regulations, embodies international best practice and encompasses HSBC Group global standards. The Framework is reviewed annually and periodically updated as required. The Framework sets out the matters reserved to the shareholders, to the Board and to the executive management team ('Management').

2. Board of Directors - nominations & duties

2.1 The current Board consists of seven members (4 are independent and all are non-executive).

2.2 The term of the current Board commenced on 29 March 2018 for a period of three years. The next Board election will be in 2021.

2.3 Any vacancy arising due to the resignation of any Director may be filled temporarily by the Board, subject to election at the next Annual General Meeting ('AGM'). Anyone wishing to be nominated for the position of Director must:

- Meet all legal requirements, including those set out in the Commercial Companies Law and the Articles; and
- Submit an application form (in the pro-forma template issued by the Capital Market Authority) at least five days before the General Meeting at which the election of Directors will take place.

2.4 The Board shall recommend suitable names to the shareholders for election as Directors in the context of the perceived needs of the Board. This does not affect the freedom of shareholders to vote for any candidate(s).

2.5 The HBON Legal Advisor shall review eligibility and correctness of the applications and compliance with laws and regulations. As required by Ministerial Decision No. E/53/2008, HBON shall file the elected

Directors' forms together with the Minutes of the AGM with the CMA within the period specified by the law.

2.6 The duties and function of the Board are defined in the Framework and are governed by all relevant laws, regulations and the Articles, to include the Banking Law, the CBO regulations, the Commercial Companies Law, and Principles 2 and 3 of the Code.

2.7 The Chairman of the Board and the CEO are separate and their roles clearly defined.

3. Board of Directors - characteristics and core competency

3.1 HBON is committed to ensuring that each of the seven Directors on the Board possesses the following characteristics:

- High ethical standards and integrity in their personal and professional dealings;
- High intelligence and wisdom, which is applied to make sound decisions;
- Capacity to read and understand financial statements;
- Potential to contribute towards the effective stewardship of HBON;
- The ability to perform to a high standard during periods of short and long term pressure;
- Capacity to approach others assertively, responsibly and cooperatively; and
- Capacity to activate and consult employees of HBON to reach high standards of management.

3.2 The Board as a whole strives to achieve the following core competency, with each candidate contributing in at least one domain:

- Skills to motivate high performing talent;
- Strategic insight and ability to direct by encouraging innovation and continuously challenging the organisation to sharpen its vision;
- Expertise in financial and corporate finance;
- The ability to understand management trends in general and to understand the banking industry locally and globally;
- Acquire and maintain appropriate and relevant industry specific knowledge; and
- Acquire and maintain business expertise in international markets.

3.3 The following table sets out the qualifications and biography of the Board members.

Name & Category	Biography
Directors in office	
Sir Sherard Cowper-Coles KCMG LVO Chairman & Non – Independent, non-executive director *Qualification(s):* *Hertford College, Oxford (Degree in Classics, Scholar, Honorary Fellow)*	Sherard joined HSBC Holdings in 2013, as Senior Adviser to the Group Chairman and Group Chief Executive, and was appointed Group Head of Government Affairs in 2015, and Group Head of Public Affairs in June 2017. He is also Chairman of HSBC Bank Oman SAOG, and a Director of HSBC Bank Egypt SAE. From 2011 to 2013, he was Business Development Director, International, at BAE Systems plc. Earlier he spent over 30 years in the British Diplomatic Service, which he joined straight from reading Classics at Oxford, finishing his career as Ambassador to Israel, Saudi Arabia and then Afghanistan. Sherard is Chair of the China- Britain Business Council; Chairman of the Omani-British Business Council; Chairman of the UK Financial Inclusion Commission; a member of the Financial Inclusion Policy Forum; an Ambassador for the Money Advice Trust, and for the Winston Churchill Memorial Trust; a Committee Member of the Hong Kong Association; and a Board Member of Asia House. He is Chair of Pitzhanger Manor & Gallery Trust. He sits on the International Engagement Committee of the British Academy. He is the author of two books: *Cables from Kabul* and *Ever the Diplomat.*
Brig. (Retd.) Waleed Omar Al Zawawi Deputy Chairman & independent non-executive director *Qualification(s):* *Masters from Kings College – London (United Kingdom) – 2007* *Graduated from The Royal College of Defence Studies (UK) – 2006* *Graduated from Camberly (United Kingdom) – 1992* *Graduated from Sandhurst (United Kingdom) – 1982*	Brig. (Retd.) Waleed Omar Al Zawawi has been a director on various Boards in Oman and abroad since 1984. He was a director on the Oman International Bank SAOG Board from 1996 to May 2012. He became the Deputy Chairman of HSBC Bank Oman SAOG effective from 31st May 2012. He served in the Oman Armed Forces for 30 years and retired from the Ministry of Defence - Oman on the 1st October 2011.
Dr. Juma Ali Juma Al Juma Independent senior non-executive director *Qualification(s):* *PhD in Political Science*	Dr. Juma worked with the Royal Office from 1982 to 1996; and thereafter worked as the General Secretary of the Tender Council from 1996 to 2001; as the Minister of Manpower from 2001 to 2008; as the Chairman of Oman Airports Maintenance Company SAOC from 2010 to 2015. Dr. Juma has been the Chairman of Al Maha Petroleum Products Marketing Company SAOG since 2016.

Corporate Governance Report (continued)
For the Annual Report 2020

Name & Category	Biography
Directors in office	
Aimen Ahmed Sultan Al Hosni Independent, non-executive director *Qualification(s):* *Masters in Public Administration Bachelor in Political Science*	Aimen Ahmed Al Hosni has served as Chief Executive Officer of Oman Airports since May 2015. Oman Airports is responsible for managing seven civil airports in the Sultanate of Oman: Muscat, Salalah, Duqm, Sohar and PDO airports (Marmul, Qarn al Alam and Fahud). His leadership is in the service of the national vision of establishing a safe, modern and customer centric aviation sector in line with Oman Vision 2040. Aimen joined Oman Airports in 2012 as the General Manager of Muscat International Airport. As the CEO, he managed the successful openings of three new airports within a period of three years: Salalah Airport in November 2015, Muscat International Airport in March 2018, and Duqm Airport in August 2018. Aimen's main focus is the transformation of Oman Airports to be an innovative, world-class airport operator, while continuing to reflect the great, traditional Omani hospitality. Under his leadership, the company has won numerous awards and recognition, including 13 awards received in 2019 from prestigious international organizations, such as the World Travel Awards and Airports Council International (ACI) awards, among others. His focus on the support of the Omani talents within Oman Airports saw its impact on the Omanization rate which grew to 95% in the recent years. Aimen is also the Chairman of Oman National Investment & Engineering Company S.A.O.G., Chairman of Muscat Insurance Company S.A.O.G and is a Board member of Oman Telecommunications Company SAOG. Most recently, the Airports Council International (ACI) has selected Mr. Al Hosni to be one of the representative members of the Asia-Pacific region.
Abdulfattah Sharaf Non- Independent, non-executive director and Chair of the NRC. *Qualification(s):* *Graduate of the University of Denver, USA*	Abdulfattah Sharaf is a Group General Manager and the Chief Executive Officer, United Arab Emirates. He is also Head of International which covers Bahrain, Kuwait and Algeria. Abdulfattah is a Board Member of HSBC Bank Oman S.A.O.G. (HBON), HSBC Middle East Holdings BV (HMEH), HSBC Private Banking Holdings (Suisse) SA (PBSU) and HSBC Private Bank (Suisse) SA (PBRS). Prior to his appointment as CEO UAE, he was the CEO Personal Financial Services, Middle East and North Africa, and responsible for all of HSBC's Retail Banking business in the MENA region. He was also a Board member of HSBC Bank Middle East Limited (HBME), HSBC Saudi Arabia Limited (IBSA) and Emirates Telecommunication Company (Etisalat). Before joining HSBC Bank Middle East Limited, Abdulfattah was Chief Executive Officer of NBD Securities, a subsidiary of Emirates NBD. Abdulfattah is currently a member of the Higher Board of the Dubai International Financial Centre (DIFC) and a Board member of the Noor Dubai Foundation. He is also a member of the Mastercard MEA Advisory Board and a Board Member of the Emirates Golf Federation.

Corporate Governance Report (continued)
For the Annual Report 2020

Name & Category	Biography
Directors in office	
Christine Lynch Non-Independent, non-executive director and Chair of the Risk Committee. *Qualification(s):* *BA (First Class) Hons degree in Modern Languages & European Studies from the University of Bath* *BSc (First Class) Hons in Financial Services awarded by University of Manchester Institute of Science.*	Christine is a senior Chief Risk Officer with 24 years' broad experience in international banking. She joined HSBC as a graduate trainee and since then has held managerial and leadership roles across the lines of business in the UK, Germany, Switzerland and most recently the UAE. In her current role as HSBC Regional Chief Risk Officer for the Middle East, Christine leads a team of over 250 Risk professionals and is responsible for the enterprise wide risk management of HSBC's activities across Global Banking & Markets, Commercial Banking and Retail Banking & Wealth Management in the UAE, Egypt, Turkey, Oman, Saudi Arabia, Qatar, Kuwait, Bahrain and Algeria. Prior to this, she was Chief Risk Officer for HSBC in Switzerland where she led a de-risking and remediation programme for the private banking operation. She speaks fluent French and German and is a mum to two kids, aged 12 and 8.
Paul Lawrence Independent, non-executive director and Chair of the Audit Committee. *Qualification(s):* *2005 – London Business School, United Kingdom Successful completion of the Senior Executive Programme aimed at developing Leadership/Managing Stakeholder Relationships/ Developing and Implementing Strategy/Improving Operational Execution* *1978 to1981 – Leicester University United Kingdom. Degree of Bachelor of Science (BSc) in Combined Studies, with the award of Honours Class II (ii)*	After 32 years with the HSBC Group, Paul retired in August 2013 and now holds a small portfolio of non-executive positions. During his career he held a number of senior roles, in business leadership in Asia and the USA and finally as Head of the HSBC Group's Global Internal Audit function based in London. Paul was a member of HSBC Commercial Banking Risk Committee, one of HSBC Group's principal business lines from 2014 to 2016 and an Independent Banking Representative, consultant to HSBC in the creation of their UK ring fence bank with a specific focus on compliance with ring fencing obligations for the new ring fence board from 2014 to 2018. He is currently an Independent Non-Executive Director, Chair of the Board Risk Committee and Member of the Board Audit, Nomination and Remuneration Committees for Shawbrook Bank Limited from 2015 and Chair of Uley Community Stores, a registered Society under the Community Benefit Societies Act 2014 registered with the Financial Conduct Authority in addition to being an Independent Non-Executive Director and Chair of Audit Committee of HSBC Oman SOAG.

3.4 The composition of the Board and its skill base is kept under continual review and a Board Evaluation is conducted on an annual basis. Board induction and training is provided on a regular basis, and includes training on relevant legal, regulatory and financial affairs.

4. Information given to the Board

4.1 The Framework sets out the matters reserved to the Board, and to the shareholders.

4.2 All Board members receive comprehensive and timely information to enable them to perform their duties.

4.3 All annual and interim financial statements, price sensitive public reports and the reports to the regulators prepared by the Board contain a balanced and understandable assessment.

4.4 The Board is aware of its responsibilities for preparing the accounts.

4.5 The Board ensures effective internal control in all areas of HBON's operations, including financial, operations-related, compliance and risk management.

4.6 The Board has adopted a transparent policy in the matter of relationship with the external auditors, particularly in relation to any award of non-audit related work. The overriding principle is that the external auditors are (and are seen to be) independent in exercising their duties.

4.7 HBON follows internal policies to ensure fair disclosure of all public information released in relation to HBON, and in particular, to ensure that any such information is timely, honest, correct, straightforward, not misleading, and complete.

5. Board & Committee Meetings

5.1 As at December 2020, the Board of Directors had three standing committees, the Audit Committee, the Risk Committee and the Nomination & Remuneration Committee ('NRC') and had delegated day to day business matters and conduct to the HBON Management through the Executive Committee ('EXCO').

5.2 The Board has appointed a legally qualified Company Secretary to carry out the duties set out in the Fifth Principle of the Code, and in addition, to advise on best international governance practice, and local governance requirements.

5.3 The Board and the three Board Committees met on the following dates during 2020 and a comprehensive agenda and Board pack (covering the matters set out in Annexure 3 of the Code) were tabled for information and (where applicable) approval.

2020 Dates	Board & Committee
27 January	Board, Audit, Risk, NRC
5 March	Board, Audit
16 April	NRC
28 April	Board, Audit, Risk
21 May	AGM and EGM
28 July	Board, Audit, Risk
25 October	Board, Audit, Risk, NRC

5.4 The Board met 5 times, the Audit Committee met 5 times, the Risk Committee met 4 times, and the NRC met 3 times in 2020. The AGM and EGM were held on 21 May 2020. The composition, names of members, Chairperson, and attendance record of the Board and Committees and directorships are given in the table below:

Name	Board & Committee membership	Attendance at Board and Committee meetings				Attendance at the Shareholders Meeting	Director of any other SAOG company in Oman
		Board #	Audit	Risk	NRC	AGM/EGM	
Sir Sherard Cowper-Coles	Board Chairman	5	N/A	No	N/A	Yes	No
Brig. (Retd.) Waleed Omar Al Zawawi	Board Deputy Chairman, and Audit	4	4	No	N/A	Yes	No
Dr. Juma Ali Juma Al Juma	Board	5	N/A	Yes	N/A	Yes	Yes
Aimen Ahmed Sultan Al Hosni	Board, Risk, NRC	5	N/A	Yes	3	Yes	Yes
Abdulfattah Sharaf	Board, Risk, NRC and Audit NRC Chairman effective 3 March 2016.	5	5	No	3	Yes	No
Christine Lynch	Board, Risk, and NRC. Risk Committee Chairperson effective from 29 March 2018	5	N/A	No	3	Yes	No
Paul Lawrence	Board and Audit. Audit Committee Chairman effective from 29 March 2018	5	5	No	N/A	Yes	No

6. Remuneration

6.1 Board of Directors

6.1.1 The Directors are entitled to receive Board and Committee sitting fees in the following amounts, namely:

- RO 500 as a sitting fee payable for every Board meeting attended; and
- RO 500 as a sitting fee for every Committee meeting attended;

subject always to (i) an individual director cap of RO 10,000 per annum and (ii) a maximum annual fees/expenses cap in aggregate (for the Board as a whole) of RO 200,000.

6.1.2 As all members of the Board are non-executive directors, no fixed remuneration or performance linked incentives are applicable. All directors are reimbursed expenses for attending the Board and committee meetings.

6.1.3 During 2020, Sir Sherard Cowper-Coles, Abdulfattah Sharaf, and Christine Lynch each waived their entitlement to be paid the whole or any part of their Board/Committee sitting fees.

6.1.4 The total Board/Committee sitting fees and expenses paid during 2020 amounted to RO 63,462 in accordance with the following table:

Name of the Director	Total Sitting fees RO
Sir Sherard Cowper-Coles	-
Brig. (Retd.) Waleed Omar Al Zawawi	3,500
Dr. Juma Ali Juma Al Juma	3,000
Aimen Ahmed Sultan Al Hosni	6,500
Abdulfattah Sharaf	-
Christine Lynch	-
Paul Lawrence	5,500
Total sitting fees	**18,500**

Staff & Senior Management

6.2.1 **Reward Framework** – The Bank's Reward Policy provides a Reward Framework which includes the following key elements:

- An assessment of performance with a reference to clear and relevant objectives set within a performance scorecard framework;
- A focus on the total compensation (fixed plus variable pay) with variable pay (namely bonus payments and the value of long-term incentives) differentiated by performance;
- The use of discretion to assess the extent to which performance has been achieved rather than applying a formulaic approach which, by its nature, cannot cover all scenarios and may encourage inappropriate risk taking or mis-selling;
- A significant proportion of variable pay for Top Management is to be deferred into HSBC Holdings Restricted Shares of HSBC, as well as deferred cash in certain instances, to tie recipients to the future performance, further align the relationship between Risk and Reward, meet the local regulatory requirements and aid employee retention.

6.2.2 **Fixed Pay Policy** - Fixed Pay is designed to attract and retain employees through market competitive pay for the role, skills and experience of the individual and as required for the business. This may include elements, such as salary, other cash allowances and benefits provided in accordance with the local market practices. These payments are fixed and do not vary with performance. Fixed pay is also not subject to malus and clawback provisions that are applicable to variable pay awards. Fixed pay elements are reviewed as a part of the annual pay review cycle or when there is a change in the role and organisational responsibilities of the individual. Incremental Fixed Pay spend for HBON as a result of the pay review is OMR 458,333/- reflecting a 2.8% increase over the December 2020 Fixed Pay bill, and within the parameters of the Fixed Pay Framework, HBON's Annual Operating Plan (AOP) and Statutory requirements.

The Fixed Pay Framework aims to provide clear and consistent guidance in respect of the HSBC approach to Fixed Pay, and to make decisions taking into account the following considerations; (a) Fixed Pay increases to be differentiated based on performance – with any increases targeted towards Top and Strong performers, (b) Considered as part of an appropriate mix of Fixed and Variable Pay as part of an employee's overall Total Compensation, (c) Mandatory Increase of (3%) on basic salary of Omani and GCC national employees only, localised attrition as well as Market pressures.

6.2.3 **Variable Pay Policy** - Variable Pay awards are designed to drive and reward performance based on annual financial and non-financial measures consistent with the Bank's medium to long-term strategy, shareholder interests and adherence to HSBC values. The Variable Pay awards are to be granted in accordance with the Sound Compensation Principles and Standards, including deferral and retention requirements. This includes any guaranteed Variable Pay that an employee may be entitled to. All Variable Pay awards granted to the employee for a performance year in which he/she was identified as a Material Risk Taker ('MRT') is subject to malus and clawback. All deferred Variable Pay is conditional upon the employee remaining employed with HSBC until the vesting date, save in circumstances where "good leaver" treatment applies.

6.2.4 **The 2020 Pay Review Funding** - Fixed and Variable Pay review funding was established during December 2020 for each Business, Function and for HBON overall. The 2021 Fixed Pay funding followed the Bank's Fixed Pay Policy, with due consideration to HBON's Annual Operating Plan ('AOP'), affordability, Regulatory/legal requirements, external economic and market characteristics along with the need to retain talent. The Variable Pay funding was based on overall business performance, market characteristics, risk and compliance issues, values adjustment and individual performance. Individual reward assessment was based on the existing four-point performance rating scale as well as the behavior rating. The impact of breaches, non-completion of certain Mandatory Training and other transgressions, as well as recognition/positive adjustment, was applied in line with the HBON Consequence Management Framework. Funding values have been ascertained for each Business and Function as a part of the standard governance process. The annual pay review has been facilitated across the Bank against the backdrop of overall performance, individual employee performance, behavior, adherence to HSBC values, the external economic and market environment, affordability, pay trends, employee expectations and the global and local legal, regulatory and social responsibility environment.

6.2.5 **The 2020 Variable Pay Spend** – Variable Pay spend will be OMR 2.37 million representing a decrease of 27 % over the 2019 spend with a headcount decrease from PY2019 to PY2020 of 4%. Aggregate Variable Pay spend reflects a payout ratio of 3.4% of overall HBON revenue (against 3.7 % of overall HBON revenue in 2019).

6.2.6 **Total Compensation of Material Risk Takers ('MRTs')** - The HBON Executive Committee and senior management members, all of whom are MRTs, as well as others classified as per the CBO definition (39 executives in total) were subject to the same recommendations, review and challenge process as the broader HBON employee population. The Pay Review for HBON was reviewed as a part of the Bank's governance process on annual reward reviews. The total remuneration paid in aggregate during 2020 to the MRTs including salary, cash and non-cash benefits, bonuses, stock options and gratuity amounted to RO 3.8 million, inclusive of MRTs in the Control functions (Audit, Risk, Regulatory and Financial Crimes Compliance) for whom the total aggregate amount was OMR 595,154. The total remuneration paid in aggregate during 2020 to the top 5 executives amounted to RO 1.03 million.

6.2.7 **Compensation Deferment Policy** - In accordance with the CBO's Deferral Rules, for which Variable Pay awards equal to or in excess of RO35,000/- are subject to a deferral of 45% were combined with the Bank's existing matrix based approach for deferrals which applies to Variable Pay values in excess of RO28,800/-. As a result of the application of this Policy, circa RO 85,752 or (12%) of the senior management and all MRTs total Variable Pay will be in the form of restricted stock and/or deferred cash/stock.

6.2.8 The executive management has been appointed under formal contracts of employment. Employment contracts are for a period of two years for expatriates and are regulated by local labour laws for Omanis. The notice period is 3 months.

7. Board Committee and Management Committees

7.1 The Board has implemented three Board committees as required under the local laws, namely the Audit Committee, the Risk Committee and the NRC. The Board also has oversight for the HBON management committees, which include an Asset & Liability Management Committee ('ALCO'), a Risk Management Meeting ('RMM'), and an EXCO.

7.2 All three Board Committees, namely - the Audit Committee, the Risk Committee, and the Nomination & Remuneration Committee ('NRC') – comprise 3 members.

7.3 Each of these Board and Management committees is governed by formal Terms of Reference which set out their membership, scope, responsibilities and accountability.

7.4 The Board has approved and delegated authority to executives within HBON. The executive management is accountable to the Board through the Chief Executive Officer ('CEO'). Clear delegations of authority and matters reserved to the Board are set out in the Framework.

7.5 The Board ensures that the decisions and policies which it approves under the 'reserved matters' set out in the Framework are implemented by Management. The CEO attends the Board meetings, and is accountable for ensuring that the Board decisions and policies are implemented effectively, and on time.

7.6 The Board keeps the systems of internal control of HBON under continuous review.

7.7 The Board keeps the training and development of Management, together with skills required and succession planning, under continual review.

8. Audit Committee

8.1 The Board has set up the Audit Committee in compliance with the Tenth Principle of the Code. Private sessions are held regularly between the Audit Committee on the one part (separately) with the Chief Financial Officer, Head of Internal Audit, External Auditors, Head of Compliance, and the statutory Legal Advisor.

8.2 The Terms of Reference of the Audit Committee set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

8.3 The primary objective of the Audit Committee is to be accountable to the Board and to provide non-executive responsibility for oversight of, and advice to the Board on, matters relating to financial reporting;

together also with all other matters set out in Annexure 3 of the Code.

9. Risk Committee

9.1 The Terms of Reference of the Risk Committee set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

9.2 The primary objective of the Risk Committee is to be accountable to the Board and to provide non-executive responsibility for oversight of, and advice to the Board on, high level risk related matters, and risk governance. In addition, the Risk Committee provides credit decisions in accordance with the limits of credit sanction authority delegated by the Board or the Chairman of the Board from time to time.

10. Nomination & Remuneration Committee ('NRC')

10.1 The Board has set up the NRC in compliance with the Eleventh Principle of the Code. The Terms of Reference of the NRC set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

10.2 The primary objective of the NRC is to be accountable to the Board and to review the over-arching principles, parameters and governance framework of the CMA's Code and HBON's remuneration policy covering the remuneration of (i) Senior Executives (HBON CEO, HBON General Managers and the HBON Company Secretary), (ii) Regulated Employees (Regulated employees are employees who perform a significant influence function), (iii) material risk takers, (iv) employees whose activities have or could have a material impact on the HBON's risk profile, and (v) any other employee as determined by the Committee from time to time in accordance with the requirements of HBON's regulators including implementation of the 9 Principles and 19 Standards of the Financial Stability Board as applicable and evidencing response to the papers on "Range of Methodologies for Risk and Performance Alignment of Remuneration" and "Pillar 3 Disclosure Requirements for Remuneration by the Basel Committee on Banking Supervision (BCBS) as may be applicable".

11. Means of Communication with Shareholders and Investors

11.1 HBON had 3,249 shareholders as at 31 December 2020.

11.2 HBON is ready, where practicable, to enter into dialogue with institutional investors, based on a mutual understanding of objectives.

11.3 The main source of information for the shareholders is the Annual Report which includes, amongst other things, the Board of Directors' statement, Management Discussion & Analysis report and the audited financial statements.

11.4 HBON financial information is uploaded onto the Muscat Securities Market ('MSM') in accordance with the local regulatory requirements. It is also uploaded onto the HBON website (www.hsbc.co.om).

11.5 In addition, the Interim Condensed Financial Report is posted on HBON's website (www.hsbc.co.om) and published in the local press. The Annual financial statements are posted on HBON's website at www.hsbc.co.om on the MSM and are published in the local press. The Annual Report (including the Annual financial statements) is also sent to the shareholders and filed with the CMA and MSM.

11.6 The website displays official news announcements and public presentations made to institutional investors and analysts.

12. Market Price and distribution of holdings

12.1 The following table sets out the HBON market price data during 2020:

Market price data - high and low
(Based on the daily closing prices on the MSM)

Month	RO High	RO Low	Average Index (MSM-Financial)
January	0.127	0.119	6,436.27
February	0.123	0.120	6,553.07
March	0.120	0.105	5,932.47
April	0.105	0.095	5,513.87
May	0.098	0.086	5,423.03
June	0.094	0.087	5,581.62
July	0.092	0.086	5,575.54
August	0.098	0.087	5,845.12
September	0.100	0.091	5,933.81
October	0.093	0.088	5,727.38
November	0.095	0.088	5,692.50
December	0.094	0.088	5,623.04

12.2 The following table sets out the distribution of HBON share ownership during 2020

% Shareholding	No of shareholders
Less than 5%	3,248
Between 5 – 10%	0
More than 10%	1
Total	3,249

HBON has no GDRs (Global Depository Receipt), ADRs (American Deposit Receipts), warrants or convertible instruments in issue.

13. Details of non-compliance by HBON

13.1 During the last 3 years' total fines of RO 8,000 (RO 8000 for Year 2018; and nil for Year 2019 and 2020) were imposed on the Bank for regulatory penalties as detailed hereunder:

Year	Entity	Regulator	Brief Description	Amount of penalties RO
2018	**HBON**	**CBO**	The Bank had not adhered with regulatory instructions in reporting of receipt of audited financials from its borrowers.	4,000
	HBON	**CBO**	The Bank had charged annual debit card fee on Dormant accounts with low or nil balances, resulting in overdrawings in these accounts. Also, the Bank charged interest on these overdrawn accounts.	4,000
TOTAL 2018				**8,000**
2019	**-**	**-**	**-**	**nil**
2020				**nil**
TOTAL 2020	**-**	**-**	**-**	**nil**

The Chairman has responded to the CBO and a Board approved action plan is in place to rectify the issues.

14. Disclosure

14.1 Management is bound by a conflict of interest policy and also a share dealing policy.

14.2 Details of Directors' interests are maintained in order to identify any contracts or other interests held by any of the HBON Directors.

14.3 Effective 22 July 2016, all new Related Party Transactions ('RPTs'), (i) where RPTs are within the ordinary course of business, are being submitted to the Audit Committee for review and to the Board for approval and (ii) where RPTs are not within the ordinary course of business, are being submitted to the Board for review and recommendation and to the Shareholders for approval, prior to execution. The definition of 'Related Parties' has been defined in the Code. The details of Related Party Transactions carried in the ordinary course of business during 2019 have been (i) disclosed in the Notes to the Financial Statements as at 31 December 2020 (included in the Annual Report) and (ii) included in the notice to AGM.

14.4 HBON complies with all other international standards relating to the disclosure of related party transactions.

14.5 HBON has implemented and follows a procurement policy.

15. Professional profile of the statutory auditor

15.1 Deloitte & Touche (MM.E) & Co. LLC ('Deloitte') were the statutory auditors of HBON in 2020.

15.2 The Shareholders of the Bank appointed Deloitte as the Bank's auditors for the year 2020.

15.3 About Deloitte: Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 285,000 professionals are committed to making an impact that matters.

15.4 About Deloitte & Touche (M.E.): Deloitte & Touche (M.E.) LLP (DME) is a licensed member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is a leading professional services firm established in the Middle East region with uninterrupted presence since 1926. DME's presence in the Middle East region is established through its affiliated independent legal entities, which are licensed to operate and to provide services under the applicable laws and regulations of the relevant country. DME's affiliates and related entities cannot oblige each other and/or DME, and when providing services, each affiliate and related entity engages directly and independently with its own clients and shall only be liable for its own acts or omissions and not those of any other affiliate.

16. Audit Fees

16.1 Deloitte charged fees of RO 73,000 for audit services and RO 33,000 for non-audit services, totaling RO 106,000, towards their engagement as the external auditor of the Bank for the year 2020.

17. Acknowledgment by the Board of Directors:

17.1 The Board confirms that to the best of its knowledge and belief:

- The financial statements have been prepared in accordance with the applicable standards and rules;
- The efficiency and adequacy of the internal control systems of HBON have been reviewed and are in compliance with internal rules and regulations; and
- There are no material things that affect the continuation of HBON and its ability to continue its operations during the next financial year.

For and on behalf of the Board of Directors

Sir Sherard Cowper-Coles
Chairman

Board of Directors' Report
Corporate Governance Report
Management Discussion & Analysis
Basel II-Pillar III and Basel III Framework
Financial Statements

Everyday banking is going digital

Routine banking activities like checking balances, payments and money transfers are increasingly being done via digital channels, and have become a customer habit.

A bank fit for the **future**

HSBC

Together we thrive

Management Discussion and Analysis

HSBC Bank Oman at a glance

HSBC Bank Oman SAOG is a proud local bank and part of one of the largest banking and financial services organisations in the world. We are part of the HSBC Group, which serves more than 40 million customers worldwide through a network that covers 64 countries and territories.

In the Sultanate of Oman we provide a wide range of banking services to more than 130,000 retail customers and more than 1700 corporate clients.

Our Values

Our values define who we are as an organisation and what makes us distinctive:

- **We value difference**

  Seeking out different perspectives
- **We succeed together**

  Collaborating across boundaries
- **We take responsibility**

  Holding ourselves accountable and taking the long view
- **We get it done**

  Moving at pace and making things happen

Financial Performance Analysis

Loss for the year: HSBC Bank Oman reported a net loss of RO8.2 M for the year ended 31 December 2020 compared with a net profit of RO29.3 M for 2019.

The loss has been primarily driven by three factors:

- An increase in the Expected Credit Losses ('ECL') and other credit impairment charges, reflecting the challenging economic environment following the outbreak of the COVID-19 pandemic and the drop in oil price,
- Lower revenues impacted by the low interest rate environment, and
- An impairment charge on non-financial assets.

The economic environment was extremely challenging in 2020 with low oil prices and the sovereign downgrade translating into increased levels of credit risk and tightening of liquidity. The financial results are further analysed as follows:

Net Interest Income (NII): NII decreased by 11.1% to RO53.8 M for the year driven by the low interest rate environment which negatively impacted interest income. Additionally, the cost of deposits continued to increase resulting in an overall margin squeeze.

Net fee, trading and other operating income: Net fee, trading and other operating income was RO16.3 M compared to RO26.1 M in 2019. Net trading income was down 38.6% to RO8.9 M largely owing to low interest rates and a decrease in the commercial surplus. Net fee income fell by RO2.9 M to RO8.1 M as the impact of the economic slowdown hit the launch of new projects and also impacted the cards business as spending was reduced.

Other operating income registered a loss of RO0.7 M.

Change in Expected Credit Losses (ECL) and other credit impairment charges: A net charge of RO18.0 M has been reported in the Bank's Expected Credit Losses (ECL) and other credit impairment charges compared with a net charge of RO3.4 M for the same period in the prior year. The change in ECLs was driven by an increase in the wholesale ECLs of RO8.7 M and retail ECLs of RO5.9 M. The incremental ECLs largely reflected the change in key macro-economic variables due to the outbreak of COVID-19.

The key drivers of the ECL charge include the deterioration in the Forward Economic Guidance (FEG), Sovereign risk downgrade and Stage 3 ECLs top ups.

Operating expenses: operating expenses increased by 25.8% to RO61.0 M due to a RO12.7 M impairment of non-financial assets, as stipulated by International Accounting Standard (IAS) 36 'Impairment of Assets'. This impairment charge reflected the weakening in the future outlook and macroeconomic conditions. Excluding this impairment, HBON's operating expenses were down 0.4%.

Management Discussion and Analysis (continued)

The Cost Efficiency Ratio (CER) went up to 87.0% for 2020 (69% excluding the impairment of non-financial assets) compared to 56.0% for 2019 due to the decline in revenue.

Total assets: HBON's total assets decreased from RO2,550.0 M to RO2,355.6 M. The majority of the reduction in assets comprised of (i) RO139.2 M in loans and advances to customers and (ii) RO60.7 M in cash and balances with central bank, which was partly offset by an increase in due from banks of RO21.9m.

Loans and advances: Customer lending decreased by 9.3% to RO1,363.6 M mainly due to a reduction in the Wholesale portfolio.

Customer deposits: Customer deposits decreased 8.0% to RO1,905.8 M compared with 2019.

HBON's liquidity intentionally remains the strongest in the market as evidenced by an Advances to Deposit ratio (ADR) of 71.6% at the end of 2020. The regulatory average Liquidity Coverage Ratio (LCR) of the Bank stood at 217% (2019: 200%) against the regulatory limit of 100%.

Capital Adequacy Ratio: HBON's Capital Adequacy Ratio (CAR) was 20.9% as at 31 December 2020 compared with 18.8% as at 31 December 2019. The strong capital base supports the Bank's goal to remain one of the strongest capitalised Banks in Oman.

Our approach to managing capital is designed to ensure that we exceed current regulatory requirements and are well placed to meet changes to such requirements which are expected in the foreseeable future.

HBON's growth aspirations and conservative approach to managing its balance sheet require a strong and liquid capital base. The unprecedented circumstances meant that the Bank ended the year with a reported loss hindering its ability to distribute dividends for the year despite our strong capital position. We seek to position ourselves to deliver sustainable shareholder returns over the coming years.

Wealth & Personal Banking

Wealth and Personal Banking serves more than 130,000 active customers in Oman. We provide services to individuals under our HSBC Premier and Advance propositions as well as for customers who have simple every day banking needs.

Key events

- We launched marketing campaigns rewarding new Premier & Advance customers.
- We launched a "Step-up" savings account campaign where customers receive higher interest rates for incremental balances in their interest bearing savings accounts during the period.
- We launched a fresh Mandoos scheme which had over 6,500 winners throughout 2020.
- We launched a new mobile app in Q1, which was downloaded more than 10,000 times in the first three weeks of the launch.
- We introduced 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 released the Mobile Payment Clearing and Switching System (MPCSS) in three phases.
- We started an ATM fleet replacement and rationalization project aimed at introducing state of the art technology and new transactional capabilities for our customers.
- We launched an Employee Benefit Solutions (EBS) program for our commercial and global banking clients, aimed at strengthening our relationships and laying the foundation of future growth with collaboration.

Commercial Banking

Commercial Banking serves more than 1700 active customers in Oman. Our customers range from small enterprises focusing mainly on the Oman market through to corporates operating globally.

Key events:

- In October 2020, we hosted a virtual Digital Summit for Omani Corporates focusing on digital innovation and its importance for business growth. The event was attended by 105 of HSBC Oman's corporate clients from the country.
- Delegates heard from a broad range of thought leaders in the digital space from OQ Group, Khimji Ramdas and Mastercard, who gave insights into blockchain, trade finance and cybersecurity. The summit brought to life the pace of change in the digital space and stressed how important it is for our corporates to be agile and embrace emerging digital trends.
- 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 flow and trade finance, and get real-time transaction reporting, from the convenience of their mobile device. The launch of the HSBCnet Mobile App underlines our commitment to providing our customers with a seamless and secure digital banking experience.
- We launched HSBCnet Trade Transaction Tracker, which is a real time tool that provides traceability and visibility on the entire trade

transaction tracking process through an advanced technological platform. It gives clients a global view of their documentary credits, collections, trade loans and guarantees across the world in a single app.

- We enabled our clients' HSBCnet profile with our Get Rate feature, which is an easy-to-use feature that enables clients to obtain a real time foreign exchange rate while making cross-currency payments. Get Rate provides rate transparency during the transaction and allows clients to know the exact amount that will be sent in foreign currency and the amount debited from their accounts.

Global Banking

Global Banking supports major government, corporate and institutional clients in achieving their long-term strategic goals through tailored and innovative solutions.

Key events:

- We continue to be a core relationship bank to the Ministry of Finance – we acted as Joint Lead Manager and Joint Bookrunner on the Government of the Sultanate of Oman 2020 Bond Issuance of USD 2bn, Tap of USD 500m in December and their USD3.25m issuance in January 2021.
- We successfully booked 2m OMR trade loans for FIG Clients, which were a first of its kind in the region in local currency.

Awards

The leading Trade Finance bank in Oman

HSBC Bank Oman was voted by customers as the leading Trade Finance bank in Oman in the 2020 Euromoney Trade Finance survey. HSBC was also voted the #1 Trade Finance bank in the Middle East region – the fourth year in succession that customers have placed the bank in top spot.

Best Investment Bank in Oman

We were named as the Best Investment Bank in Oman at the 2020 Euromoney Middle East Awards for Excellence. The HSBC Group collected a total of six Middle East awards, once again featuring prominently in Euromoney's list of honours which are considered the most prestigious in the financial services industry.

Best Cash Manager in Oman

We were voted the #1 cash management bank in the Sultanate of Oman by corporates for the ninth consecutive year in the annual Euromoney Cash Management Survey. This is a clear recognition of the strength of our comprehensive cash management capabilities.

Human Resources

We are pleased to have maintained an Omanisation rate of 93% as at 31 December 2020, noticeably ahead of the 90% target set by the Central Bank of Oman.

Our objective is to create a work environment where it is easier for our people to do their jobs and where they feel safe and supported. We do this through empowering teams to be more entrepreneurial, and by investing in learning and development.

Through our different flexible working arrangements and mental health programs we aim to create an environment that improves the health and happiness of our staff. Doing so increases our ability to serve our customers, shareholders, regulators and communities.

In 2020 HSBC Bank Oman's staff benefited from a variety of different learning programmes through alternative media. In addition, all of the Bank's employees have regular access to e.learning modules developed by the HSBC Group.

In 2020 we introduced the 'Future Skills' programme, which is our Group-wide programme of skill-building activities and new opportunities to prepare our people for the future. This is an on-going programme through which the Bank delivers a host of events, including interactive workshops and panel discussions, focused on five strategic themes: Curiosity, creativity, connectivity, resilience and growth mindset.

Business Continuity Planning (BCP)

The Bank has an established Business Continuity and Incident Management (BCIM) Programme that provides a consistent methodology and planning approach with associated processes, tools, and plans to protect the Bank's critical assets – people, business and operations. This programme is implemented and maintained on an enterprise-wide basis. The BCIM programme comprises of policies and procedures with clearly defined roles, responsibilities and ownership for Crisis and Incident Management, Emergency Response, Business Recovery and IT Disaster Recovery Planning to mitigate risks arising from unforeseen business interruptions.

The Bank's BCP committee, represented by the senior executive management of the Bank, oversees the annual review of Business Continuity Management strategies and processes.

The robustness of the Bank's BCP programme was evident from our effective management of the COVID-19 global pandemic. From the inception of the pandemic, the Bank activated its BCP plan with split site and remote working across all our businesses and functions, which has enabled us to continue to serve our customers seamlessly.

COVID-19 Relief Measures

To help us to adapt to the exceptional circumstances of COVID 19 and position ourselves to support the communities and individuals with whom we have such long standing relationships, we have made a number of changes to the way we work in order to continue to provide our customers with the level of service they expect from us.

In addition to following the guidelines of the Ministry of

Management Discussion and Analysis (continued)

Health with regard to protecting the health of our staff and our customers, we have tailored our response to the different circumstances and situations in which our customers find themselves.

We have also introduced a range of special measures to support individuals, businesses and communities here in the Sultanate as follows:

For Retail Customers:

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

For Wholesale Customers:

- Hosting weekly webinars to help our clients navigate this challenging environment, helping them to transact digitally and providing access to our senior and sectorial-based expertise;
- Launching the HSBCnet mobile app;
- Implementing enhanced features on our award winning HSBCnet platform to help our clients manage their trade, payments and FX securely anytime, anywhere without having to visit a branch.

We are pleased to note that over 97% of the payments which we handle for our corporate customers are now made via a digital channel – HSBCnet, HSBC Connect or through our Trade services platform ITS.

Whether our customers are working remotely, at the office, or in other locations, our relationship managers and digital services mean that we are available, keeping them connected with their finances and to the advice they may need.

Corporate Sustainability

Oman Fisheries and Aquaculture Climate Change Report

At HSBC, we recognise the potential impact of climate change and have set out an ambitious plan to unlock climate solutions through our partnership with a range of stakeholders including charities, governments, non-governmental institutions and policymakers.

In 2020 we launched a new research programme with the Centre for Environment, Fisheries and Aquaculture Science (CEFAS) and in partnership with The Ministry of Agriculture, Fisheries & Water Resources, which has identified the potential impact of climate change on Omani fisheries and aquaculture.

The outcome of this research, which was conducted by CEFAS, is intended to help facilitate the development of actions to ensure long-term environmental and economic sustainability in the fisheries sector in Oman.

We commissioned this research to better understand the risks of climate change to this important sector of the Omani economy so that we can help build a more sustainable fishery and aquaculture sector in Oman, and protect the livelihoods, food security, revenues and investments associated with it.

COVID 19 Charity Projects

We have made contributions to a range of projects in the Sultanate to help underprivileged families impacted by COVID-19. The disbursements, organised in close cooperation with partner charities in Oman, helped in providing relief and recovery to individuals and families impacted by COVID-19, as well as hospital workers helping to combat the virus.

Through our partnership with selected charitable organizations in Oman, we aim to complement the efforts of the different government and non-government entities as they combat the virus and its implications.

During the time of COVID-19 restrictions, our student-focused future skills programmes were delivered remotely using e-learning channels. This included our entrepreneur-targeted programmes, such as the Maharat Min Google programme with Injaz Oman, which was conducted through virtual and online sessions.

Our Focus on Renewable energy

In 2020 we achieved a major milestone with the completion of our solar energy project at our head office. The installation of 600 kilowatts of solar energy capacity via approximately 220 car park canopies will reduce the bank's reliance on power generated by fossil fuels.

With this significant sustainability investment, we have become the first bank and one of the first large corporates in the Sultanate of Oman to utilise solar energy on this scale.

The project supports Oman's vision on renewable energy as well as HSBC's commitment to tackle climate change and support sustainable growth.

Looking Ahead

As announced by the Government, the 10th five-year development plan aims to stimulate economic activity and drive economic diversification. With projects worth more than $170bn planned or under way, the Sultanate offers a healthy economic pipeline.

We are proud to have been a core strategic advisor to the Government of Oman over many years, and we aim to continue to play a leading role in the Sultanate's journey to achieving fiscal stability, sustainable growth and realizing its 2040 vision. We can achieve this by leveraging our unparalleled global network and our 70 years' heritage in Oman.

Mel Betley

Melika Betley
Chief Executive Officer

Ready for tomorrow

HSBC is equipping our people with the skills they need to build a sustainable future and better serve our customers.

A bank fit for the **future**

HSBC

Together we thrive

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Report of factual findings to the Board of Directors of HSBC Bank Oman SAOG in respect of Basel II - Pillar III Disclosures and Basel III related disclosures

We have performed the procedures agreed with you in the letter of engagement EL-66-2020/RR/ARS/SS dated 12 April 2020 and enumerated below and as prescribed in the Central Bank of Oman ("CBO") Circular No BM 1027 dated 4 December 2007 and Circular No. BM 1157 dated 30 December 2018, with respect to the Basel II - Pillar III disclosures and Basel III related disclosures (the disclosures) of the **HSBC Bank Oman SAOG** ("the Bank") set out on the attached pages as at and for the year ended 31 December 2020. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007, Circular No. BM 1114 dated 17 November 2013, Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018 and CBO letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements (ISRS 4400). The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular number BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013, Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018 and CBO letter BSD/CB/2020/005 dated 03 June 2020.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures as at and for the year ended 31 December 2020.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman; and we accept no liability to any third party. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Deloitte & Touche

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Deloitte & Touche (M.E.) & Co. LLC

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
4 March 2021

Statutory Disclosure under Basel II - Pillar III and Basel III Framework
For the year ended 31 December 2020

1. Introduction

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, and 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.

The following qualitative and quantitative disclosures has been prepared in accordance to meet the minimum disclosure requirement as per Central Bank of Oman ('CBO') rules and regulations relating capital adequacy standards and Pillar III Disclosure requirements under Basel II and Basel III framework. The Basel II and Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 which concerns market discipline.

Disclosure Policy

The Bank has developed a formal policy on the disclosure requirements forming part of Basel II and Basel III Norms which is approved by the Board of Directors in line with the requirements of the Central Bank of Oman ('CBO') regulations.

2. Scope of Application

The information provided in this statement is for the Bank's operations in Oman. The Bank has no subsidiaries.

3. Capital Structure

Objectives and Strategy

CBO sets and monitors regulatory requirements. The Bank's objectives when managing capital are to:

- Safeguard the Bank's ability to continue as a growing entity and increase the returns for its ultimate shareholders;
- Comply with regulatory capital requirements set by the CBO;
- Maintain Capital Adequacy Ratios above the minimum specified by the CBO and Basel II Accord guidelines and Basel III framework;
- Manage the investments in short term money market placements in CBO instruments or above investment grade financial institutions.

Qualitative Disclosures

- The Bank uses Standardized Approach for estimating the Capital Charge for credit risk.
- The Bank uses Basic Indicator Approach for estimating the Capital Charge for Operational Risk.
- In implementing current capital requirements, the Bank calculates Risk Assets Ratio in accordance with the Capital Adequacy guidelines established by the CBO prescribing the ratio of total capital to total Risk Weighted Assets (RWA).

Quantitative disclosure

The regulatory capital is broadly classified into two categories – Tier 1 and Tier 2 capital. Tier 1 capital is further classified into Common Equity Tier 1 capital ('CET 1') and Additional Tier 1 Capital ('AT1'). The Bank's capital structure also consist of Tier 1 and Tier 2 ('T2') capital.

CET1 capital

CET1 Capital is comprised of common shares issued by the bank, legal reserves and retained earnings. The book values of goodwill, intangible assets, and cumulative unrealised losses on fair value through other comprehensive income ('FVOCI') financial investments are deducted in arriving at CET1 capital. Currently, the Bank does not have any goodwill in its book.

AT1 capital

AT 1 Capital consisting of the following:

- Perpetual capital instruments issued by the bank which should be subordinated to depositors, general creditors and subordinated debt/sukuk of the bank and meets the further criteria as specified under the Basel III framework;
- Share premium resulting from the issue of Additional Tier I instruments;
- Qualifying Additional Tier 1 capital instruments issued by consolidated subsidiaries of the bank held by third parties, on minority interest and which are not included in Common Equity Tier 1; and
- Less regulatory adjustments applied in the calculation of Additional Tier 1 Capital.

T2 capital

T2 capital comprises of the following:

- Cumulative fair value gains on FVOCI financial investments. The fair value gains are recognized after a haircut of 55% on the difference between the historical cost book value and market value and are applied in order to cushion against market volatility and tax charges.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2020

- Stage 1 and stage 2 expected credit loss ('ECL') allowances under IFRS 9. The stage 2 ECL allowances under IFRS 9 is required to be phased out from Tier 2 capital.

  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.

  The below table represents the revised phase-out arrangements for the Stage 2 ECL from Tier 2 capital

Year	Portion of stage 2 ECLs of base year (as of 31 December 2019) considered for tier 2 capital	Portion of incremental stage 2 ECLs post base year (31 December 2019) considered for tier 2 capital
2018	80%	-
2019	60%	-
2020	40%	100%
2021	20%	80%
2022	0%	60%
2023	-	40%
2024	-	20%
2025 Onwards	-	0%

  The total stage 1 and permitted stage 2 ECL allowance included in Tier 2 capital is subject to the ceiling of 1.25% of credit risk weighted assets. The Incremental stage ECL is not subject to any ceiling for the time being.

In line with the CBO guidelines, non-strategic investments made in banks/financial entities up to either 5% of the capital of the investee bank/financial entity or 5% of the net worth of the investing bank, whichever is lower, has been risk weighted at 100%.

The Composition of the Capital structure is as follows:

	RO in 000
Paid up share capital	200,031
Legal reserve	45,944
Retained earnings	79,822
Regulatory adjustments to CET1	(4,725)
CET1 capital	**321,072**
Additional Tier 1 capital	-
Total Tier 1 capital	**321,072**
ECL allowance – Stage 1	9,839
ECL allowance – Stage 2	12,761
Tier 2 capital	**22,600**
Total regulatory capital	**343,672**

If the bank would not have applied the prudential filter as explained above, the Capital structure as of 31 December 2020 would have been as below;

	RO in 000
Paid up share capital	200,031
Legal reserve	45,944
Retained earnings	79,822
Regulatory adjustments to CET1	(4,725)
CET1 capital	**321,072**
Additional Tier 1 capital	-
Total Tier 1 capital	**321,072**
ECL allowance – Stage 1	9,839
ECL allowance – Stage 2	8,642
Tier 2 capital	**18,481**
Total regulatory capital	**339,552**

4. Compensation policy

In line with the CBO guidelines on sound compensation practices, the Bank has outlined the relevant compensation policies as part of the pillar III disclosures requirement;

Qualitative Disclosures

The Bank has a Board constituted Nomination & Remuneration Committee ('NRC') whose primary objectives are;

- to review the over-arching principles, parameters and governance framework of the Capital Market Authority's Code; and

- to review the Bank's remuneration policy and the remuneration of (i) senior executives (HBON CEO, HBON General Managers and the HBON company secretary), (ii) regulated employees (regulated employees are employees who perform a significant influence function), (iii) material risk takers, (iv) employees whose activities have or could have a material impact on the HBON's risk profile, and (v) any other employee as determined by the Committee from time to time in accordance with the requirements of HBON's regulators.

4.1 Remuneration policy

The scope of Bank's remuneration policy extends to all employees of the Bank. The Bank's remuneration policy includes the rewards framework, fixed pay policy and variable pay policy. The details of such policies are discussed in the Banks Corporate Governance Report.

4.2 Material Risk Takers ('MRT')

The Bank has identified the members as material risk takers as their activities are considered to have a potentially material impact on the Bank's risk profile.

Quantitative Disclosures

The below table provide the details of compensation to the key management personnel;

	2020 RO'000	2019 RO'000
Wages, salaries and other short term benefits	**1,696**	1,917
Post-employment benefits	**160**	73
	1,856	1,990

5. Capital Adequacy

The Bank's policy is to maintain a strong capital base so as to maintain investor, depositor and market confidence and to sustain future business developments.

The Bank is fully committed in implementing the Basel III Norms as adopted by the CBO and currently follows the Standardised approach for credit and market risk and the Basic Indicator Approach for operational risk.

The Bank has in place an Internal Capital Adequacy Process ('ICAAP') which evaluates Bank's position to meet the capital adequacy guidance as set out by CBO as well as further conservative internal targets the Bank sets for itself.

The capital to support current and future activities is discussed in the Bank's Asset Liability Committee ("ALCO") and documented.

In line with CBO, Capital Adequacy regulations and HSBC Group practices we monitor the Capital Adequacy on a monthly basis. Further, a full Basel II Return in line with CBO format is submitted each quarter as per standard requirements.

Credit Risk

The Bank has implemented the Standardized Approach across its Banking Book.

Operational Risk

The Bank uses the Basic Indicator Approach for the allocation of operational risk capital. The Bank allocates capital for operational risk based on the average annual gross income for the past three years.

Market Risk

The Bank is using Value at Risk ('VaR') methodology in calculating market risk on exposures on the balance sheet. VaR methodology is set out in detail under note 31.5 of the financial statements.

The details of capital, risk weighted assets and capital adequacy ratio as at 31 December 2020 are as follows:

RO '000

Details	**Gross balance (Book value)**	**Net balances (Book value)***	**Risk weighted assets**
On-balance sheet items	2,355,919	2,155,732	1,147,431
Off-balance sheet items	398,398	397,144	314,836
Derivatives	2,796	2,796	2,796
Total	**2,757,113**	**2,555,672**	**1,465,063**
Market risk			22,234
Operational risk			160,451
Total			**1,647,748**
CET 1 capital			321,072
Additional Tier 1 capital			-
Total Tier 1 capital			**321,072**
Tier 2 capital			**22,600**
Total regulatory capital			**343,672**
Capital requirement for credit risk			179,470
Capital requirement for market risk			2,724
Capital requirement for operational risk			19,655
Total required capital			**201,849**
CET1 / Tier 1 Capital ratio			**19.49%**
Total capital ratio			**20.86%**

*Net of eligible collaterals.

6. Risk Exposure and Assessment

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks that the Bank is exposed to are retail and wholesale credit risk (including cross-border country risk), market risk (predominantly foreign exchange and interest rate risks) and liquidity & funding risk and strategic risk (including reputational risk and pension risks). The Bank is also exposed to operational non-financial risk in various forms (including Resilience risk, Financial Crime & Fraud Risk, People risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting & Tax risks and Model Risks).

The risk profiles of the Bank change constantly under the influence of a wide range of factors. The risk management framework established by the Bank fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interdependencies.

The Bank's Risk Management framework is set out in note 31 of the financial statements.

6.1 Credit Risk

Credit Risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and from off-balance sheet products such as guarantees and from the Bank's holding of debt and other securities. Credit risk generates the largest regulatory capital requirement of the risks the Bank incurs.

The Bank implements credit policies, procedures and lending guidelines that meet local requirements and conform to the HSBC Group standards.

The Bank has standalone credit policies that are aligned to HSBC group. These includes the application of a credit risk rating system for corporate counterparties for which the Bank uses a 23 point credit risk rating system called Credit Risk Rating ('CRR'). Each CRR is mapped to a Probability of Default (PD), which is also reviewed and updated periodically. Since such accounts are individually significant, risk ratings are reviewed regularly and amendments are made as and when appropriate. Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

The management of credit risk, credit approval process, credit quality of loans and advances, impaired loans, credit administration is set out in note 31.3 of the financial statements.

The Bank's credit risk limits to counterparties in the financial and government sectors are in line with the delegation of authorities by the Bank's Board. The main purpose is to optimize the use of credit availability and avoid excessive risk concentration. Cross border exposures are subject to limits which are centrally managed by the HSBC Group and are subject to HSBC Group approval concurrence.

The Bank has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis which includes the management of adverse trends. The Bank is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products, or to individual geographic areas.

Special attention is paid to the management of problem loans. A specialist unit exists to provide intensive management and control to maximize recoveries of doubtful debts.

Risk reporting

In addition to the quantitative disclosures and other reporting / returns submitted to our regulators in Oman, the Bank monitored the retail portfolio performance, high risk portfolios, risk concentrations, country limits and cross-border exposures, large impaired accounts, impairment allowances and stress testing results through the Risk Management Meeting, the Audit and Risk Committees and the Board of Directors.

Policies for hedging and/or mitigating risk

The Bank follows the policies and processes for mitigating risks as per the instructions given under the HSBC Group Business Functional Instruction Manual (FIM).

Past Dues

Past due but not impaired gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria. This is typically when a loan is less than 90 days past due and there are no other indicators of impairment. Further analysis of the past due financial instruments is set out in in note 31.3 of the financial statements.

Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to customers, due from banks, other financial assets held at amortised cost, debt instrument measured at fair value through other comprehensive income ('FVOCI'), and certain loan commitments, acceptances and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

Impairment assessment

It is the Bank's policy to create allowances for impaired loans and advances promptly and consistently. For details of impairment policies on loans and advances and financial investments, see note 2.2 of the financial statements. When impairment losses occur, the Bank reduces the carrying amount of loans and advances through the use of an allowance account.

The financial assets recorded in each stage have the following characteristics:

- **Stage 1:** Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- **Stage 2:** A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- **Stage 3:** Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.
- POCI: Purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised.

Impaired loans

Impaired and stage 3 loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay their credit obligations in full without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the group.
- Retail loans and advances classified as Band 7. These grades are typically assigned to retail loans and advances more than 90 days past due unless individually they have been assessed as not impaired.

The details for total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure are listed as under:

RO'000

Type of Credit Exposure	Average gross exposure		Total gross exposure	
	31 December 2020	31 December 2019	**31 December 2020**	31 December 2019
Overdraft	**169,843**	109,987	**157,030**	172,654
Personal loans*	**488,118**	509,793	**446,928**	491,656
Loans against trust receipts	**66,371**	111,503	**65,834**	87,338
Other loans	**771,618**	727,855	**749,161**	822,790
Bills purchased / discounted	**3,294**	12,027	**10,717**	9,024
Total	**1,499,244**	1,471,165	**1,429,670**	1,583,462

*Personal loans exclude the retail overdrafts of RO1,949 K (31 Dec 2019: RO2,654 K) which has been included under overdrafts.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2020

Geographical distribution

Geographic distribution of exposures, broken down in significant areas by major types of credit exposure

RO'000

Type of Credit Exposure	Oman	Other GCC countries	OECD Countries	Other	Total
Overdraft	157,030	-	-	-	157,030
Personal loans*	446,538	-	138	252	446,928
Loans against trust receipts	65,834	-	-	-	65,834
Other loans	704,288	6,182	38,691	-	749,161
Bills purchased / discounted	10,717	-	-	-	10,717
Total	**1,384,407**	**6,182**	**38,829**	**252**	**1,429,670**

*Personal loans exclude the retail overdrafts of RO1,949 K which has been included under overdrafts.

Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

RO'000

Economic Sector	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Import Trade	19,121	116,868	1,018	137,007	28,290
Export Trade	-	-	-	-	-
Wholesale & Retail Trade	2,247	58,032	709	60,988	5,193
Mining & Quarrying	18	1,569	-	1,587	34,633
Construction	6,565	75,062	208	81,835	86,926
Manufacturing	4,303	165,212	477	169,992	18,798
Electricity, gas and water	448	35,560	-	36,008	3,173
Transport and Communication	425	57,855	-	58,280	33,919
Financial Institutions	-	-	-	-	50
Services	4,055	95,201	8,305	107,561	65,926
Personal Loans	1,949	446,538	-	448,487	-
Agriculture and Allied Activities	2,071	854	-	2,925	-
Government	115,694	119,307	-	235,001	11,735
Non-Resident Lending*	-	45,263	-	45,263	294,622
All others	134	44,602	-	44,736	10,200
Total	**157,030**	**1,261,923**	**10,717**	**1,429,670**	**593,465**

*Non-resident lending includes loans from Mining & quarrying sector RO38,691 K, Services sector RO6,182 K and Personal loan RO390 K.

*Non-resident lending includes off balance sheet exposure from Financial institution sector RO151,161 K, Transport and communication sector RO133,171 K, Manufacturing sector RO1,090 K and all others RO9,200 K.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2020

Residual contractual maturity of the loan portfolio, broken down by major types of credit exposure:

RO'000

Time Band	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Upto1 month	136,126	165,293	915	302,334	61,341
1-3 months	-	84,740	1,142	85,882	74,103
3-6 months	-	55,222	4,147	59,369	25,319
6-9 months	-	-	4,491	4,491	23,159
9-12 months	-	19,207	-	19,207	45,992
1-3 years	-	282,918	-	282,918	73,251
3-5 years	-	624,797	-	624,797	179,943
Over 5 years	20,904	29,746	22	50,672	110,357
Total	**157,030**	**1,261,923**	**10,717**	**1,429,670**	**593,465**

Risk exposure by major industry

RO'000

Economic Sector	Gross Loans	Of which, NPLs	Stage 3 ECL Allowance**	Reserve interest**	Net change in Stage 3 ECL allowance on loans and advances during the year	Advances written off during the year
Import trade	137,007	16,968	11,364	2,157	(10)	31,342
Wholesale & retail trade	60,988	5,413	3,751	1,445	(117)	-
Mining & quarrying	1,587	-	-	-	-	-
Construction	81,835	3,850	1,715	1,625	(25)	15
Manufacturing	169,992	1,815	743	1,055	(4)	-
Electricity, gas and water	36,008	-	-	-	-	-
Transport and communication	58,280	1,391	201	1,178	(1)	-
Services	107,561	4,632	1,217	2,230	(545)	-
Personal loans	448,487	7,414	2,067	322	(3,671)	4,737
Agriculture and allied activities	2,925	2,922	662	2,085	-	-
Government	235,001	-	-	-	-	-
Non-resident lending*	45,263	6,182	4,554	193	(4,519)	-
All others	44,736	-	-	-	-	-
Total	**1,429,670**	**50,587**	**26,274**	**12,290**	**(8,892)**	**36,094**

*Non-resident lending includes loans from Mining & quarrying sector RO38,691 K, Services sector RO6,182 K and Personal loan RO390 K.

**Includes ECL allowance and reserve interest only on NPLs.

Amount of impaired loans broken down by significant geographic areas including stage 3 ECL allowances related to each geographical area.

RO'000

Country	Gross loans	Of which, NPLs	Stage 3 ECL Allowance*	Reserve interest*	Net change in stage 3 ECL allowance on loans and advances during the year	Advances written off during the year
Oman	1,384,407	44,405	21,720	12,097	(4,373)	36,094
Other GCC countries	6,182	6,182	4,554	193	(4,519)	-
OECD countries	38,829	-	-	-	-	-
Others	252	-	-	-	-	-
Total	**1,429,670**	**50,587**	**26,274**	**12,290**	**(8,892)**	**36,094**

*Includes ECL allowances and Reserve interest only on NPLs

Movements of Gross Loans:

RO'000

Details	Stage 1	Stage 2	Stage 3	Total
Opening balance	**999,681**	**512,439**	**71,342**	**1,583,462**
Migration / changes (+/-)	(45,914)	33,135	12,779	**-**
New loans	279,963	-	2,977	**282,940**
Recovery of loans	(396,467)	(4,171)	-	**(400,638)**
Loans written off	-	-	(36,094)	**(36,094)**
Closing balance	**837,263**	**541,403**	**51,004**	**1,429,670**
ECL allowance	**8,669**	**17,641**	**26,362**	**52,672**
Reserve Interest	**139**	**968**	**12,309**	**13,416**

6.2 Credit Risk disclosures for the Standardised Approach

The Bank uses the ratings from Eligible Credit Assessment Institutions ('ECAI') recognised by CBO, like Fitch and Standard & Poor's for the assessment of credit risk under the Basel II Standardized Approach. Each of the rating agencies is used for the purpose of assessing Sovereign, Bank and Corporate credit assessments. The process of transferring the public issue rating in to comparable assets in the banking book is not widely applied in Oman as most corporate clients are unrated. However, the exposure to banks through money market placements, balances with other banks and counter guarantees are governed, by the ratings applied by the rating agencies.

The total Banking Book risk weighted assets amounted to RO1,465.1 million as at 31 December 2020 after the application of credit risk mitigants.

The analysis of exposure with banks and sovereign by ECAI ratings is set out in note 31.3 of the financial statements.

The Bank endeavours to obtain collateral for all corporate credits unless the business case warrants clean lending. Collaterals stipulated are usually mortgages, charges over business, stock and debtors, financial instruments and cash. Security is however recognized only as a fall back option and repayment of facilities is primarily predicated on cash flow from the borrower's business. However, collateral may be an important mitigant of risk.

In the Retail loan segment, facilities granted are predominately salary linked loans for personal purposes. Prudent norms as well as regulatory guidelines are applied to ensure that the borrower is not overstretched to repay his dues. For housing loans and auto loans, besides the salary assignments, the underlying asset is mortgaged.

Where reliance is placed on real estate as collateral, professional valuations by a Bank approved valuer are required. Revaluations are obtained every two years. If equities are taken as collateral, only shares quoted on the Muscat Securities Market ('MSM') can be accepted and the value of shares will be based on the average value over the 15 days preceding the drawdown. For both mortgage and financial instruments values should have margin cover applied as defined in the Banks'

Lending Guidelines.

The Bank uses the Basel II Simple Approach for Credit Risk Mitigation - Collateral. HBON's policies, procedures and processes including collateral valuation and management are governed by HSBC Group guidelines.

The total value of eligible financial collateral for the credit risk portfolio is RO272.9 million which includes deposits under lien of RO201.4 million, which has been reduced from the credit exposure of the counterparty when calculating risk, weighted assets while other bank guarantees of RO71.5 million which attracts the relevant risk weight of the counterparty providing the guarantee. The Bank does make use of netting whether on or off balance sheet.

Credit risk concentrations are monitored through monthly ALCO and Risk Management Meetings.

6.3 Market risks in the trading book

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity and commodity prices will reduce the Bank's income or the value of its portfolios. The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Bank's status as a premier provider of financial products and services.

The management of market risk is set out in note 31.5 of the financial statements.

One of the principal tools used by the Bank to monitor and limit market risk exposure is Value at risk ('VaR'). VaR is a measure that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Bank, 99 per cent). The Bank calculates VaR daily.

The VaR model used by the Bank is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series which would naturally take into account inter-relationships between different market rates, for example between interest rates and foreign exchange rates.

Although a useful guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognizes these limitations by augmenting its VaR limits with other position and sensitivity limit structures.

Market risk in the trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR, together with stress and sensitivity testing and concentration limits.

Other controls include restricting individual operations to trading within a list of pre-approved permissible instruments, and enforcing rigorous new product approval procedures

The VAR for Global markets was as follows:

	2020	**Average**	**Maximum**	**Minimum**	2019	Average	Maximum	Minimum
	RO'000	**RO'000**	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000
Total VAR	**136**	**179**	**707**	**27**	187	109	195	0
Trading VAR	**49**	**51**	**107**	**6**	37	26	60	3

The principal objective of market risk management of non-trading portfolios is to optimize net interest income. Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated by having to make behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts. In order to manage this risk optimally, market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the auspices of ALCO. ALCO regularly reviews that these portfolios are managed within pre-approved interest rate risk limits.

6.4 Interest Rate Risk

Interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments can generate interest rate risk, the impact of which is a function of the interest rate changes and the maturity profile of the assets and liabilities. Positions are monitored regularly and hedging strategies are used to manage the interest rate risk. The management of mismatches and gap position is set out in note 24 of financial statements. The impact of an incremental / decreased 100 basis points parallel shift on net interest income ('NII') for the next 12 months is given as follows:

		2020	2019
		RO'000	RO'000
1% UP -	Increase in NII by	**9,291**	9,475
1% DOWN -	Decrease in NII by	**(5,660)**	(7,232)

The capital requirements for market risk are as follows:

	RO'000
Interest rate risk	-
Equity position risk	-
Commodities position risk	-
Foreign exchange risk	1,779
Total	**1,779**

6.5 Liquidity and funding Risk:

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

Liquidity and funding risk management framework

The objective of the Bank's liquidity and funding risk framework ('LFRF') management is to allow it to withstand severe liquidity stresses. It is designed to be adaptable to changing business models and regulations.

The LFRF is delivered using the following key aspects:

- minimum LCR requirement depending on inherit liquidity risk ('ILR') categorisation;
- minimum NSFR requirement depending on ILR categorization;
- Single currency liquidity management
- Forward looking funding status assessment
- Analysis of off-balance sheet commitments
- Asset encumbrance
- depositor concentration limit;
- Liquidity funds transfer pricing
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from bank, deposits from non-bank financial institutions and securities issued;
- Contingency Funding Plan, and
- Individual Liquidity Adequacy Assessment and liquidity stress testing

Liquidity ratios- Basel III

Liquidity coverage ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLAs consist of cash or assets that can be converted into cash at little or no loss of value in markets.

The liquidity position of the Bank remained strong as of 31 December 2020. As per LFRF framework Bank's liquidity coverage ratio as of 31 December 2020 was 345% (2019: 290%)

The Bank's LCR ratio as per the CBO requirement as of 31 December 2020 was 215% (31 December 2019: 200%).

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

As per LFRF framework Bank's net stable funding ('NSFR') ratio as of 31 December 2020 was 135% (2019:135%).

The Bank's NSFR ratio as per CBO requirement as of 31 December 2020 was 147% (31 December 2019: 144%).

Detailed computation of LCR and NSFR as per the CBO requirement has been disclosed separately in note 33 of the financial statements.

Leverage ratio

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements.

The leverage ratio is intended to:

- restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy; and
- reinforce the risk-based requirements with a simple, non-risk based "backstop" measure
- The leverage ratio disclosure template as per regulatory guidelines is disclosed in Annexure IV.

Sources of funding

The current accounts, savings deposits and term deposits are the Bank's primary source of funding. The Bank places considerable importance on the stability of these deposits.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial investments, as required by the LFRF. Loans and other advances to banks continued to exceed deposits by banks.

6.6 Operational Risk:

Operational risk the risk to achieving strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

A formal governance structure provides oversight over the management of operational risk. The Risk Management Meeting convenes monthly to discuss operational risk issues and the effectiveness of internal controls. The capital requirement of RO19.7 million is based on the average gross income for the three year period ending 31 December 2020.

The management of operational risk is set out in note 31.7 of the financial statements.

Basic Indicator Approach calculation

RO in 000's

Year	Business line	Total Gross Income (GI)	Total Gross income (after negative GI adjustment)	Alpha	Capital charge
2018	Total business	92,210	92,210	15.00%	**13,832**
2019	Total business	90,414	90,414	15.00%	**13,562**
2020	Total business	74,098	74,098	15.00%	**11,115**
Number of years with positive total gross income					**3**
Basic Indicator approach capital charge @ 12.50					**12,836**
Total Risk Weighted Assets - Operational Risk					**160,451**

6.7 Basel III common disclosures template

The Basel III common disclosure template is designed to capture the capital positions of the Bank after the transition period of the phasing-in deductions ended on 01 January 2018. (refer Annexure I).

Disclosure for 3 step approach reconciliation

Under Basel III frameworks, banks should disclose a full reconciliation of all regulatory capital elements back to the statement of financial position in the audited financial statements. The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. The 3 step approach indicated below ensures that the reconciliation between these numbers is undertaken in a consistent manner (refer Annexure II).

- Step 1: The reported statement of financial position under the regulatory scope of consolidation.
- Step 2: Expand the lines of the statement of financial position under the regulatory scope of consolidation to display all of the components that are used in the composition of capital disclosure (refer Annexure I).
- Step 3: Map each of the components that are disclosed in Step 2 to the composition of capital disclosure set out in Annexure I.

Disclosure for main feature of regulatory capital instruments

The disclosure of main feature of regulatory capital instruments provides a main features report that summarises all of the regulatory capital instruments of the bank. This is a minimum level of summary disclosure that required to report in respect of each regulatory capital instrument issued by the bank, including common shares.

A description of the main feature of regulatory capital instruments issued by the Bank is set out in Annexure III.

I approve and authorize for issue these Basel II Pillar 3 and Basel III disclosures.

Mel Betly

Melika Betley
Chief Executive Officer

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2020

Annexure I

Basel III common disclosure for the year ended 31 December 2020 (RO '000)		
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus / premium	200,031
2	Retained earnings	79,822
3	Accumulated other comprehensive income (and other reserves)	45,944
4	*Directly issued capital subject to phase out from CET1(only applicable to non-joint stock companies)*	-
5	*Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)*	-
6	**Common Equity Tier 1 capital before regulatory Adjustments**	**325,797**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(320)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(4,405)
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2020

23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	**Total regulatory adjustments to Common equity Tier 1**	**(4,725)**
29	**Common Equity Tier 1 capital (CET1)**	**321,072**
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 capital before regulatory adjustments**	**-**
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	-
44	**Additional Tier 1 capital (AT1)**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**321,072**
	Tier 2 capital: instruments and provisions	-
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2020

47	*Directly issued capital instruments subject to phase out from Tier 2*	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-
50	Provisions (Expected Credit Loss allowances for stage 1 and 2)	22,600
51	**Tier 2 capital before regulatory adjustments**	**22,600**
	Tier 2 capital: regulatory adjustments	-
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
57	**Total regulatory adjustments to Tier 2 capital**	-
58	**Tier 2 capital (T2)**	**22,600**
59	**Total capital (TC = T1 + T2)**	**343,672**
60	**Total risk weighted assets (60a+60b+60c)**	**1,647,748**
60a	*Of which: Credit risk weighted assets*	1,465,063
60b	*Of which: Market risk weighted assets*	22,234
60c	*Of which: Operational risk weighted assets*	160,451
Capital Ratios		
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**19.49%**
62	**Tier 1 (as a percentage of risk weighted assets)**	**19.49%**
63	**Total capital (as a percentage of risk weighted assets)**	**20.86%**
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	-
65	*of which: capital conservation buffer requirement*	-
66	*of which: bank specific countercyclical buffer requirement*	-
67	*of which: D-SIB/G-SIB buffer requirement*	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2020

68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	-
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	-
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	-
71	National total capital minimum ratio (if different from Basel 3 minimum)	-
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	**-**
80	*Current cap on CET1 instruments subject to phase out arrangements*	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2020

Annexure II

Step 1

The scope of regulatory consolidation and accounting consolidation is identical accordingly the step 1 of the reconciliation is not required.

Step 2

RO'000

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at 31.12.2020	**As at 31.12.2020**	
Assets			
Cash and balances with CBO	220,485	220,485	
Balance with banks and money at call and short notice	227,448	227,448	
Investments :			
Of which Held to Maturity	-	-	
Out of investments in Held to Maturity:	-	-	
Investments in subsidiaries	-	-	
Investments in Associates and Joint Ventures	-	-	
FVOCI Investments of which:	483,417	483,417	
Investments in Subsidiaries	-	-	
Investments in Associates and Joint Ventures	-	-	
Held for Trading	-	-	
FVTPL investments	152	152	
Loans and advances of which :	1,429,670	1,429,670	
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks	-	-	
Loans and advances to domestic customers	-	1,357,097	
Loans and advances to non-resident customers for domestic operations	-	-	
Loans and advances to non-resident customers for operations abroad	-	45,263	
Loans and advances to SMEs	-	27,310	
Financing from Islamic banking window	-	-	
Provision against Loans and advances of which:	**(66,088)**	**(66,088)**	
ECL Allowance	(52,672)	(52,672)	
Reserve Interest	(13,416)	(13,416)	
Fixed assets	19,488	19,488	
Other assets of which:	41,015	41,015	
Goodwill and intangible assets Out of which:			
Goodwill	-	-	**a**
Other intangibles (excluding MSRs)	-	-	**b**
Deferred tax assets	4,405	4,405	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2020

Goodwill on consolidation	-	-	
Debit balance in Profit & Loss account	-	-	
Total Assets	**2,355,587**	**2,355,587**	
Capital & Liabilities			
Paid-up Capital Of which:			
Amount eligible for CET1	200,031	200,031	**h**
Amount eligible for AT1	-	-	**i**
Reserves & Surplus	127,455	127,455	
Total Capital	**327,486**	**327,486**	
Deposits Of which:			
Deposits from banks	63,774	63,774	
Customer deposits	1,905,771	1,905,771	
Deposits of Islamic Banking window	-	-	
Other deposits(please specify)	-	-	
Borrowings Of which:		-	
From CBO		-	
From banks		-	
From other institutions & agencies		-	
Borrowings in the form of bonds, Debentures and sukuks		-	
Others (Please specify)		-	
Other liabilities & provisions Of which:	58,556	58,556	
DTLs related to goodwill	-	-	**c**
DTLs related to intangible assets	-	-	**d**
TOTAL	**2,355,587**	**2,355,587**	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2020

Step 3

RO'000

Common Equity Tier 1 capital: instruments and reserves			
		Component of regulatory capital reported by bank	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2**
1	Directly issued qualifying common share (and equivalent for non- joint stock companies) capital plus related stock surplus	200,031	**h**
2	Retained earnings	79,822	
3	Accumulated other comprehensive income (including legal reserve) (and other reserves)	45,944	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	Common Equity Tier 1 capital before regulatory adjustments	**325,797**	
7	Prudential valuation adjustments	(320)	
8	Goodwill (net of related tax liability)	-	**(a-c)**
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(4,405)	
11	Regulatory adjustments applied to Common Equity Tier 1 and Tier 2 to cover deductions	-	
	Common Equity Tier 1 capital (CET1)	**321,072**	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2020

Annexure III

1	**Issuer**	
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	-
4	Transitional Basel III rules	-
5	Post-transitional Basel III rules	-
6	Eligible at solo/group/group & solo	-
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	RO 200.031 million
9	Par value of instrument	RO 200.031 million
10	Accounting classification	Common Equity Shares
11	Original date of issuance	03 June 2012
12	Perpetual or dated	Dated
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating Dividend
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2020

Annexure IV

RO'000

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

	Item	As at 31.12.2020
1	Total consolidated assets as per published financial statements	2,355,587
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	13,365
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)	449,359
7	Other adjustments	(4,405)
8	**Leverage ratio exposure**	**2,813,906**

Table 2: Leverage ratio common disclosure template

	Item	As at 31.12.2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,355,587
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(4,405)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**2,351,182**
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	10,569
5	Add-on amounts for PFE associated with all derivatives transactions	2,796
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)**	**13,365**
	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	1,177,053
18	(Adjustments for conversion to credit equivalent amounts)	(727,694)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**449,359**
	Capital and total exposures	
20	**Tier 1 capital**	**321,072**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**2,813,906**
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	**11.4**

Deloitte.

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Independent auditor's report to the shareholders of HSBC Bank Oman SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **HSBC Bank Oman SAOG** ("the Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Bank's financial statements in Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Expected credit losses on loans and advances to customers As described in Note 11 to the financial statements, the bank has loans and advances of RO 1.36 billion as at 31 December 2020 representing 58% of total assets. The determination of the Bank's expected credit losses for loans and advances to customers measured at amortised cost is a material and complex estimate requiring significant management judgement in the evaluation of credit quality and the estimation of inherent losses in the portfolio especially in light of the uncertain outlook caused by the impact of the COVID-19 pandemic. During the year, the estimated impact of COVID-19 was incorporated in the ECL through additional scenario analysis, the Bank used a 4 scenario model; upside scenario, central scenario, downside scenario and U-shaped scenario. The IFRS 9 Model was refreshed with the latest Forward Economic Guidance (FEG) based on the published surveys of economists (consensus forecasts). The weights allocated to the four scenarios were based on a judgmental view considering the level of COVID19 infections, mobility restrictions, GDP forecast, Government stimulus and ability to provide a financial relief package. The financial statement risk arises from several aspects requiring substantial judgement of management, such as the estimation of probabilities of default and loss given defaults for various stages such as the determination of significant increases in credit risk (SICR) and credit-impairment status (default), the use of different modelling techniques and consideration of manual adjustments. In calculating expected credit losses, the Bank considered credit quality indicators for each loan and portfolio, by risk grades and estimates losses for each loan based upon their nature and risk profile. Auditing the complex judgements and assumptions involves especially challenging auditor judgement due to the nature and extent of the audit evidence and effort required to address these matters. For further information on this key audit matter, refer to Note 11 to the financial statements.	We established an audit approach, which includes both testing the design and operating effectiveness of internal controls over the determination of expected credit losses and risk-based substantive audit procedures. Our procedures over internal controls both at a local and HSBC Group level, including assistance from the Group Auditors, focused on the governance over the process controls around the ECL methodology, completeness and accuracy of loan data used in the expected loss models, management review of outcomes, management validation and approval process, the assignment of borrowers' risk classification, consistency of application of accounting policies and the process for calculating individual allowances. The primary substantive procedures which we performed to address this key audit matter included, but were not limited to, the following: • For a risk-based sample of individual loans, we performed a detailed credit review, assessed the appropriateness of information for evaluating the credit-worthiness and staging classification of individual borrowers and challenged the assumptions underlying the expected credit loss allowance calculations, such as estimated future cash flows, collateral valuations and estimates of recovery. We considered as well the consistency of the Bank's application of its impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for loan impairment allowances; • For loans not tested individually, we evaluated controls over the modelling process, including model monitoring validation and approval through our Group Auditors. We tested controls over model outputs and the mathematical accuracy and computation of the expected credit losses by re-performing or independently calculating elements of the expected credit losses based on relevant source documents with the involvement of our modelling specialists. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. We evaluated key assumptions such as thresholds used to determine SICR and forward looking macroeconomic scenarios including the related weighting; • We and the Group auditors evaluated post model adjustments and management overlays in the context of key model and data limitations identified by the Bank in order to assess the reasonableness of these adjustments, focusing on PD and LGD used for corporate loans, and challenged their rationale; • We assessed the reasonableness of forward looking information incorporated into the impairment calculations by involving our specialist to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses; • We have evaluated the approach employed by the Bank to measure the impact of COVID-19 on ECL including the controls over the IFRS 9 governance process and stage migrations, management over and underlays to ECL estimates and macro-economic scenarios and weightings. We have tested the impact on individual loans through our detailed credit reviews as explained above; • We evaluated other post model adjustments and management over and underlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses; and • We tested, utilizing our internal IT specialists and the Group Auditors; the IT applications used in the credit impairments process and verified the integrity of data used as input to the models including the transfer of data between source systems and impairments models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances.

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Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
IT access management The Bank is vitally dependent on its complex information technology environment including HSBC Group wide systems and controls for the reliability and continuity of its operations and financial reporting process due to the extensive volume and variety of transactions, which are processed daily across the Bank's businesses; this includes cyber risks. Inappropriate granting of or ineffective monitoring of access rights to IT systems therefore presents a risk to the accuracy of financial accounting and reporting. Appropriate IT controls are required to protect the Bank's IT infrastructure, data and applications, ensure transactions are processed correctly and limit the potential for fraud and errors as a results of change to an application or underlying data. Unauthorized or extensive access rights cause a risk or intended or unintended manipulation of data that could have a material effect on the completeness and accuracy of financial statements. Further, the prevailing COVID-19 situation has caused the required IT applications to be made accessible to the employees on a remote basis.	Our audit approach depends to a large extent on the effectiveness of automated and IT-dependent manual controls and therefore we performed our understanding of the Bank's IT-related control environment and identified IT applications, databases and operating systems that are relevant for the financial reporting process and to our audit. For relevant IT-dependent controls within the financial reporting process, at both a local and HSBC Group level, we evaluated their design, implementation and operating effectiveness with the assistance of our internal IT specialists as well as the Group Auditors. We updated our understanding of applications relevant for financial reporting and tested key controls particularly in the area of access protection, integrity of system interfaces and linkage of such controls to the reliability, completeness and accuracy of financial reporting including computer-generated reports used in financial reporting. Our and the Group Auditor's procedures covered, but were not limited to, the following areas relevant for financial reporting: • IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations; • Controls regarding initial access granted to IT systems for new employees or employees changing roles, whether that access was subject to appropriate screening and it was approved by authorised persons as well as aligned with their job description; • Controls regarding removal of employee or former employee access rights within an appropriate period of time after having changed roles or leaving the Bank; • Controls regarding the appropriateness of system access rights for privileged or administrative authorisations (superuser) being subject to a restrictive authorisation assignment procedure and regular review thereof; • Understood the IT infrastructure i.e. operating systems and databases supporting the in-scope systems and related data security controls in relation to the large number of users working on the entity's systems remotely in the light of COVID-19; • Password protection, security settings regarding modification of applications, databases and operating systems, the segregation of department and IT users and segregation of employees responsible for program development and those responsible for system operations; • Program developers approval rights in the modification process and their capability to carry out any modifications in the productive versions of applications, databases and operating systems. We analysed the segregation of duties on critical trading and payment systems in order to assess whether the segregation between front and back office was effective; and • We performed journal entry testing as stipulated by the International Standards on Auditing.

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Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of cash generating units (CGUs) of the Bank As disclosed in Note 16 to the financial statements, the Bank considered the pervasive macroeconomic deterioration caused by the outbreak of COVID-19, drop in oil prices and low interest rate environment which had driven down the forecast earnings, to be indicators of impairment in the business in accordance with IAS 36 - Impairment of Assets. As a result, impairment tests were performed as at 31 December 2020 for the four CGUs identified, i.e. Global business, Wholesale business, Retail business and Corporate Centre. Impairment of RO 12.66 million was recognized in the statement of comprehensive income as the recoverable amount of the CGUs were less than their carrying amount. The recoverable amount of the CGUs, which is based on the higher of the value in use or fair value less costs of disposal, has been derived from discounted forecast cash flow models. The determination of the VIUs is based on the requirements of the accounting standard IAS 36 - Impairment of Assets and estimates about future cash flows which are estimated using the Banks's Annual Operating Plan, long term growth rates and discount rates. These estimates, which are judgmental, are derived from a combination of management estimates, market data and other information provided by external parties.	We tested the CGUs impairment models and the key assumptions used by management with the involvement of our valuation specialists. Our audit procedures included the following: • Evaluated the relevant controls over the management's impairment test, including controls over the determination of the recoverable amount of the CGUs and approval of the impairment provision; • Assessed the appropriateness of the methodology, including the estimation of value in use of the CGUs and fair value less cost to disposal; • Evaluated that the recoverable amount of a CGU is represented by its value in use, except in circumstances where the carrying amount of a CGU exceeds its value in use. In such cases, the greater of the CGU's fair value less costs of disposal and its value in use is the recoverable amount; • Evaluated whether the cash flows in the models used by management to calculate the recoverable value are in accordance with the relevant accounting standards; • Challenged the inputs used in the determination of estimations within the model including the Annual Operating Plan; • Independently calculated, with the assistance of our valuation experts, reasonable ranges for the discount rates and terminal growth rates used within the model, and compared to the rates used by management; • Performed sensitivity analysis on the significant assumptions; and • Evaluated whether the disclosures within the financial statements address the significant estimates used to determine the impairment of CGUs.

Other information

The Board of Directors (the Board) is responsible for the other information. The other information comprises the Board of Directors' report, the Corporate Governance report, management discussion and analysis and statutory disclosures under Basel II – Pillar III and Basel III framework, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Bank's Annual Report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

Responsibilities of management and those charged with governance for the financial statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and relevant disclosure requirements of the Commercial Companies Law of 2019 and the Capital Market Authority (the "CMA") of the Sultanate of Oman and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal regulatory requirements

Further, we report that the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 2019 and the disclosure requirements issued by the Capital Market Authority.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
4 March 2021

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
C.R. No. 1736256
Deloitte.
0901-01
Deloitte & Touche (M.E.)& Co. LLC.

Signed by
Ahmed Al Qassabi
Partner
ACCA Membership No. 0820917

Statement of comprehensive income
For the year ended 31 December 2020

2019 US$'000	2020 US$'000		Notes	2020 RO'000	2019 RO'000
199,449	182,216	Interest income	3(a)	70,153	76,788
(42,200)	(42,543)	Interest expense	3(b)	(16,379)	(16,247)
157,249	139,673	**Net interest income**		53,774	60,541
38,623	29,829	Fee income		11,484	14,870
(10,151)	(8,873)	Fee expense		(3,416)	(3,908)
28,472	20,956	**Net fee income**		8,068	10,962
37,657	23,164	Net trading income		8,918	14,498
(86)	(273)	Changes in fair value of financial investments measured at Fair Value Through Profit and Loss (FVTPL)	12	(105)	(33)
49	29	Dividend income		11	19
1,592	(1,527)	Other operating income	4	(588)	613
224,933	182,022	**Net operating income before loan impairment charges and other credit provisions**		70,078	86,600
(8,901)	(46,696)	Change in expected credit losses and other credit impairment charges	5	(17,978)	(3,427)
216,032	135,326	**Net operating income**		52,100	83,173
(59,875)	(58,636)	Employee compensation and benefits	6(a)	(22,575)	(23,052)
(56,439)	(59,777)	General and administrative expenses	6(b)	(23,014)	(21,729)
(6,452)	(28,821)	Depreciation and impairment of property, equipment and right-of-use assets	15	(11,096)	(2,484)
(3,145)	(11,177)	Amortisation and impairment of intangible assets	7	(4,303)	(1,211)
(125,911)	(158,411)	**Total operating expenses**		(60,988)	(48,476)
90,121	(23,085)	**(Loss) / profit before tax**		(8,888)	34,697
(14,060)	1,758	Tax expense	8	677	(5,413)
76,061	(21,327)	**(Loss) / profit for the year**		(8,211)	29,284
		Other comprehensive income			
		Items that may be reclassified subsequently to profit or loss			
		Debt instruments at Fair Value Through Other Comprehensive Income (FVOCI)			
2,408	1,099	- Fair value gain	12	423	927
49	1,852	- Expected credit losses recognised in income statement	5	713	19
(361)	(166)	- Income tax	8	(64)	(139)
2,096	2,785			1,072	807
		Items that will not be reclassified subsequently to profit or loss			
164	94	Remeasurement of defined benefit liability	19(a)	36	63
2,260	2,879	**Other comprehensive income for the year - net of tax**		1,108	870
78,321	(18,448)	**Total comprehensive (loss) / income for the year**		(7,103)	30,154
US$0.038	US$(0.011)	**(Loss) / earnings per share – basic and diluted**	9(a)	RO(0.004)	RO0.015

The accompanying notes form an integral part of these financial statements.

Statement of financial position

For the year ended 31 December 2020

2019 US$'000	2020 US$'000		Notes	2020 RO'000	2019 RO'000
		Assets			
730,353	**572,688**	Cash and balances with central bank	**10(a)**	**220,485**	281,186
534,013	**590,774**	Due from banks	**10(b)**	**227,448**	205,595
3,903,205	**3,541,771**	Loans and advances to customers - net	**11**	**1,363,582**	1,502,734
1,267,754	**1,256,023**	Financial investments	**12**	**483,569**	488,085
117,140	**95,091**	Other assets	**13**	**36,610**	45,099
4,083	**-**	Intangible assets	**14**	**-**	1,572
61,423	**50,618**	Property and equipment	**15**	**19,488**	23,648
5,397	**11,442**	Deferred tax assets	**8**	**4,405**	2,078
6,623,368	**6,118,407**	**Total assets**		**2,355,587**	2,549,997
		Liabilities and equity			
		Liabilities			
142,218	**165,647**	Due to banks	**17**	**63,774**	54,754
5,380,408	**4,950,055**	Deposits from customers	**18**	**1,905,771**	2,071,457
167,290	**141,178**	Other liabilities	**19**	**54,354**	64,407
19,187	**10,914**	Current tax liabilities	**8**	**4,202**	7,387
5,709,103	**5,267,794**	**Total liabilities**		**2,028,101**	2,198,005
		Equity			
519,561	**519,561**	Share capital	**20**	**200,031**	200,031
119,335	**119,335**	Legal reserve	**21(a)**	**45,944**	45,944
1,603	**4,387**	FVOCI reserve	**21(b)**	**1,689**	617
273,766	**207,330**	Retained earnings		**79,822**	105,400
914,265	**850,613**	**Net equity**		**327,486**	351,992
6,623,368	**6,118,407**	**Total liabilities and equity**		**2,355,587**	2,549,997
US$0.457	**US$0.425**	**Net assets per share – RO**	**9(b)**	**RO0.164**	RO0.176
		Off-balance sheet items			
		Contingent liabilities and commitments			
251,984	**214,603**	Documentary credits		**82,622**	97,014
1,389,629	**1,326,865**	Guarantees and performance bonds		**510,843**	535,007
2,840,327	**2,601,473**	Others		**1,001,567**	1,093,526
4,481,940	**4,142,941**		**22(a)**	**1,595,032**	1,725,547

The accompanying notes form an integral part of these financial statements.

The financial statements were authorised for issue on 04 March 2021 in accordance with a resolution of the Board of Directors.

Sir Sherard Cowper-Coles
Chairman

Melika Betley
Chief Executive Officer

Statement of changes in equity
For the year ended 31 December 2020

	Share capital	Legal reserve	FVOCI reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2019	200,031	43,016	(190)	97,584	340,441
Total comprehensive income for the year					
Profit for the year	-	-	-	29,284	29,284
Other comprehensive income for the year					
Net movement in fair value of debt instrument carried at FVOCI (net of tax)	-	-	807	-	807
Remeasurement of defined benefit liability	-	-	-	63	63
Total other comprehensive income for the year	-	-	807	29,347	30,154
Total comprehensive income for the year					
Transfer to legal reserve	-	2,928	-	(2,928)	-
Transaction with shareholders, recorded directly in equity					
Dividend paid for 2018	-	-	-	(18,603)	(18,603)
At 31 December 2019	200,031	45,944	617	105,400	351,992
At 1 January 2020	**200,031**	**45,944**	**617**	**105,400**	**351,992**
Total comprehensive (loss) / income for the year					
Loss for the year	**-**	**-**	**-**	**(8,211)**	**(8,211)**
Other comprehensive income for the year	**-**	**-**	**-**	**(8,211)**	**(8,211)**
Net movement in fair value of debt instrument carried at FVOCI (net of tax)	**-**	**-**	**1,072**	**-**	**1,072**
Remeasurement of defined benefit liability	**-**	**-**	**-**	**36**	**36**
Total other comprehensive income for the year	**-**	**-**	**1,072**	**36**	**1,108**
Total comprehensive income / (loss) for the year			**1,072**	**(8,175)**	**(7,103)**
Transfer to legal reserve	**-**	**-**	**-**	**-**	**-**
Transaction with shareholders, recorded directly in equity					
Dividend paid for 2019	**-**	**-**	**-**	**(17,403)**	**(17,403)**
At 31 December 2020	**200,031**	**45,944**	**1,689**	**79,822**	**327,486**
At 31 December 2020 (USD 000's)	**519,561**	**119,335**	**4,387**	**207,330**	**850,613**
At 31 December 2019 (USD 000's)	519,561	119,335	1,603	273,766	914,265

The accompanying notes form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2020

2019 US$'000	**2020 US$'000**		Notes	**2020 RO'000**	2019 RO'000
		Cash flows from operating activities			
90,122	**(23,086)**	(Loss) / profit before tax		**(8,888)**	34,697
		Adjustments for:			
8,715	**88,858**	– non-cash items included in profit before tax	**26(a)**	**34,210**	3,355
(325,221)	**334,788**	– change in operating assets	**26(b)**	**128,893**	(125,210)
419,787	**(455,880)**	– change in operating liabilities	**26(c)**	**(175,514)**	161,618
(15,631)	**(13,610)**	– tax paid	**8**	**(5,240)**	(6,018)
(242)	**(213)**	– retirement benefits paid	**19(a)**	**(82)**	(93)
177,530	**(69,143)**	**Net cash (used in) / generated from operating activities**		**(26,621)**	68,349
		Cash flows from investing activities			
(218,270)	**(116,764)**	Purchase of financial investments		**(44,954)**	(84,034)
99,218	**258,792**	Proceeds from maturity of financial investments		**99,635**	38,199
(6,190)	**(21,657)**	Purchase of property and equipment	**15**	**(8,338)**	(2,383)
3,816	**-**	Proceeds from sale of property and equipment		**-**	1,469
(121,426)	**120,371**	**Net cash generated / (used in)from investing activities**		**46,343**	(46,749)
		Cash flows from financing activities			
(48,319)	**(45,203)**	Dividends paid		**(17,403)**	(18,603)
(48,319)	**(45,203)**	**Net cash used in financing activities**		**(17,403)**	(18,603)
7,784	**6,023**	**Net change in cash and cash equivalents**		**2,319**	2,997
2,063,353	**2,071,138**	Cash and cash equivalents at the beginning of the year		**797,388**	794,391
2,071,137	**2,077,161**	**Cash and cash equivalents at the end of the year**	**26(d)**	**799,707**	797,388

The accompanying notes form an integral part of these financial statements.

1 Legal status and principal 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 summary of significant accounting policies

2.1 Basis of preparation

(a) Statement of compliance

The financial statements of the Bank at 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), the disclosure requirements and the applicable regulations of the Capital Market Authority ("CMA"), and the Central Bank of Oman ("CBO") and Commercial Companies Law.

IFRSs comprise accounting standards issued by the IASB as well as interpretations issued by the IFRS Interpretations Committee ('IFRIC').

The Bank presents its assets and liabilities broadly in order of their liquidity in the statement of financial position as this presentation is more appropriate to the Banks's operations.

The financial statements have been prepared on the historical cost basis except for financial investments at FVOCI and FVTPL and derivative financial instruments which are measured at fair value.

(b) Functional and presentation currency

The financial statements are presented in Rials Omani ("RO"), which is the functional currency of the primary economic environment in which the Bank operates. The United States Dollar amounts disclosed in the financial statements have been translated from Rial Omani at the exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the readers only.

(c) Standards applicable during the year

Interest Rate Benchmark Reform - Phase 2'

Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The Bank has adopted the amendments from 1 January 2020 and has made the disclosures as required by the amendments.

In addition, The Bank has adopted a number of interpretations and amendments to standards, which have had an insignificant effect on the financial statements of the Bank.

(d) Future accounting developments

The IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2021. The Bank expects they will have an insignificant effect, when adopted, on the financial statements of the Bank.

(e) Use of estimates and judgments

The preparation of the financial statements 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, impairment of non-financial assets at amortised cost and the valuation of financial instruments.

(f) Foreign currency transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income.

(g) 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 reviews the operating segment results, makes decisions about resource allocation and assesses 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 29 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 Summary of significant accounting policies

(a) (a) Financial instruments

All financial instruments are recognized initially at fair value at trade date. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognizes a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value.

When unobservable market data has a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognized immediately in the statement of comprehensive income. Instead, it is recognized over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Bank enters into an offsetting transaction. Financial instruments include cash and balances with central bank, due from banks, loans and advances to customers, financial investments, acceptances, due to banks, deposits from customers and other financial assets and liabilities.

(b) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to customers and due from banks and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The Bank accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan becomes impaired.

(c) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets that are held for a business model achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the Statement of comprehensive income as other operating income. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in Statement of comprehensive income.

(d) Equity securities measured at fair value

Equity securities measured at fair value through profit or loss (FVTPL)

The Bank measures all equity securities at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate equity securities at fair value through other comprehensive income. Gain and losses on equity investment at FVTPL are included in the Statement of comprehensive income.

Equity securities measured at fair value and fair value movements presented in Other Comprehensive Income ('OCI')

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the Bank holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to Statement of comprehensive income.

(e) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- where the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the statement of comprehensive income.

(f) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category included all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps and forward foreign exchange contracts that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

(g) Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net trading income'. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value are reported in the Statement of comprehensive income together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the Bank that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Interest income or Interest expense'.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the statement of comprehensive income, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortized in the statement of comprehensive income based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognized, in which case it is released to the statement of comprehensive income immediately.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash balances in hand; balances with banks and other financial institutions and Central bank of Oman (CBO); items in the course of collection from other banks; deposits with banks and other financial institutions maturing within three months of the date of acquisition; other short-term highly liquid investments with original maturities of three months or less and amounts due to banks and other financial institutions payable within three months.

(i) Money market placements

Money market placements are initially recorded at fair value and are subsequently measured at amortized cost.

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(j) Derecognition

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expired or are surrendered. A financial liability is derecognized when it is extinguished, cancelled or expired.

FVOCI and FVTPL financial assets that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

(k) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(l) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to customers and due from banks, other financial assets held at amortised cost, debt instrument measured at fair value through other comprehensive income ('FVOCI'), and certain loan commitments, acceptances and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

Credit-impaired (stage 3)

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days,
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be Purchased or originated credit impaired (POCI) and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stages 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit impaired

Loan modifications that are not renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor and the determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompass a wide range of information including the obligor's Credit Risk Rating (CRR), macro-economic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30bps
Greater than 3.3 and not impaired	2x

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – number of CRR grade notches deterioration required to identify as significant credit deterioration (stage2) ≥
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notches
8.3	0 notches

Further information about the 23-grade scale used for CRR set out on in note 31.3 of the financial statements.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macro-economic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a life time PD measure. Retail exposures are first segmented into homogenous portfolios, generally by product and brand. Within each portfolio, the Stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. This portfolio specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher from that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk - (stage 1)

ECL resulting from default events that are possible within the next 12-months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired (POCI)

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change in lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative deterioration in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows [observed over a minimum of 1year period] and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by- case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Bank calculates ECL using three main components, a probability of default ('PD'), a loss given default ('LGD'), and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. The Bank leverages the Basel framework where possible to recalibrate and meet the differing IFRS 9 requirements.

The ECL for Wholesale Stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as of the reporting date reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability weighted by reference to the three economic scenarios applied more generally by the Bank and the judgement of the credit risk officer. For less significant cases, the effect of different economic scenarios and work out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The Bank will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In 2020, and due to the economic effects of Covid-19 outbreak, the Bank applied four forward-looking global scenarios. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside, Downside scenarios and Additional Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside, Downside and Additional Downside are constructed following a standard process supported by a scenario narrative reflecting the current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario was fixed with the Central scenario being assigned a weighting of 70%, the Downside scenario 20% and the Upside and Additional Downside 5% each, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product. The economic factors include, but are not limited to, gross domestic product, world oil price and UAE investment.

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In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The Bank recognises that the Consensus Economic Scenario approach using four scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay / underlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgement

The calculation of ECL under IFRS 9 involves significant estimates and judgements. The level of estimation uncertainty and judgement has increased since 31 December 2019 as a result of the economic effects of the Covid-19 outbreak, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a widening in the distribution of economic forecasts. The key judgement is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;
- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the Covid-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

(m) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated so as to write off the depreciable cost of property and equipment, other than freehold land, by equal installments over the estimated economic useful lives from the date the asset is brought into use, as follows:

Buildings	25 years
Leasehold property and improvements	3-5 years
Motor vehicles	5 years
Equipment, furniture and fixtures	3-7 years
Computer equipment	3-7 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit for the year. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred. Management annually reviews the appropriateness of useful lives, residual values and depreciation methods for property and equipment. Property and equipment are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to appropriate category and depreciated in accordance with the Bank's policies.

(n) Leases accounting

IFRS 16 results in accounting for most leases by a lessee within the scope of the standard in a manner similar to that in which finance leases were accounted for under IAS 17 'Leases'. Lessees recognise a 'right of use' asset and a corresponding financial liability on the statement of financial position. The right of use asset is amortised over the length of the lease, and the financial liability is measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The Bank applied the IFRS 16 standard using a modified retrospective approach and therefore comparatives are not restated.

Initial recognition and measurement

The Bank initially measures the right-of-use asset at cost; and the lease liability at the present value of the future lease payments. The amount is discounted using the interest rate implicit in the lease if this can be readily determined; otherwise, the incremental borrowing rate. The commencement date is the date on which a lessor makes an underlying asset available for use. After initial recognition, the Bank measures the right-of-use asset at cost less accumulated amortization and accumulated impairment losses.

After initial recognition, the Bank measures the lease liability by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Interest on the lease liability is the amount that produces a constant periodic rate of the interest on the remaining balance of the lease liability. The periodic rate of interest is the rate used to discount the lease payments to calculate the lease liability.

Presentation

On the statement of financial position, the right-of-use assets are included under other assets (note 13), and the lease liability is included in 'Other liabilities' (note 19)

In the Statement of comprehensive income, the amortization charge for the right-of-use assets is included in 'Depreciation of property and equipment'. Interest on lease liabilities are included in interest expense.

(o) Intangible assets

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Intangible assets includes core deposit relationships, customer relationships and internally generated softwares. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Intangible assets that have a finite useful life are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life.

Intangible assets with finite useful lives are amortized on a straight-line basis, over their useful lives as follows:

Core deposits	7 years
Customer relationships	7 years
Internally generated softwares	3-10 years

Amortization method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(p) Impairment of non-financial assets

The Bank's non-financial assets, are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that carrying amount may not be recoverable. Under IAS36 (Impairment of Assets) the recoverable amount is the higher of the asset's fair value less cost to sell or its value in use (VIU). The VIU is the present net worth of the asset or cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other group of assets. The Bank's CGUs are the reportable business segments which are CMB, WPB and GB&M.

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. Impairment is not recognized with respect to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

Critical accounting estimates and judgements

The complexity of the estimation process and issues related to the assumptions, risks, uncertainties inherent in the application of the accounting estimates in relation to impairment test of non-financial assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the financial statements. Current and future levels of volatility and uncertainty over economic conditions are important factors in assessing the reasonableness of these estimates, assumptions and judgements.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests the impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment.

The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control.

(q) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation which has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

(r) Acceptances and endorsements

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

(s) Income and expenses

Interest income and expense

Interest income and expense for all financial instruments except for those classified as FVOCI and FVTPL (other than debt securities issued by the Bank and derivatives managed in conjunction with such debt securities issued) are recognized in 'Interest income' and 'Interest expense' in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Non-interest income and expenses

Net fee income is earned from a diverse range of services provided by the Bank to its customers. Fee income is accounted for as follows:

The Bank generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Bank delivers a specific transaction at the point in time such as import/export services.

With the exception of certain performance fees, all other fees are generated at a fixed price. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

The Bank recognises fees earned on transaction-based arrangements at a point in time when we have fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the Bank offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading.

Change in fair value of financial investments measured at fair value through profit and loss comprises of changes in fair value of financial investments measured at FVTPL.

Dividend income for FVTPL and FVOCI financial asset is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

Other income is credited to income at the time of effecting the transaction.

(t) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent it relates to a business combination or items recognized directly in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for in respect of initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(u) Employee terminal benefits

Contributions to defined contribution retirement plans, for Omani employees in accordance with the Oman Social Insurance Scheme, and for international employees in accordance with the HSBC International Staff Retirement Benefit Scheme, are recognized as expenses in the statement of comprehensive income as incurred.

The Bank's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognized immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effect of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

Notes to the Financial Statements (continued)
As of 31 December 2020

3 Net interest income

	2020	2019
	RO'000	RO'000
3(a) Interest income		
Loans and advances to customers	**62,329**	66,322
Financial investments	**4,102**	5,428
Due from banks	**1,097**	5,038
Others	**2,625**	-
	70,153	76,788
3(b) Interest expense		
Deposits from customers	**(15,865)**	(15,907)
Due to banks	**(233)**	-
Others	**(281)**	(340)
	(16,379)	(16,247)
Net interest income	**53,774**	60,541

4 Other operating income

	2020	2019
	RO'000	RO'000
Gain on derecognition of financial assets measured at amortised cost	**-**	46
Net loss on sale of financial investments	**(336)**	(5)
(Loss) / gain on disposal property and equipment	**(290)**	547
Other income	**38**	25
Total	**(588)**	613

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

	2020	2019
	RO'000	RO'000
- loans and advances to customers	**(15,176)**	(1,731)
- due from Banks	**(124)**	(2)
- loan commitment and guarantees	**(1,822)**	(1,650)
- other financial assets	**(143)**	(25)
- financial investments at FVOCI	**(713)**	(19)
Total	**(17,978)**	(3,427)

6 Operating expenses

6(a) Employee compensation and benefits	2020	2019
	RO'000	RO'000
Wages and salaries	**(17,286)**	(16,984)
Social security costs	**(1,483)**	(1,478)
Post-employment benefits	**(183)**	(197)
Other employee benefits	**(3,623)**	(4,393)
	(22,575)	(23,052)

Notes to the Financial Statements (continued)
As of 31 December 2020

6(b) General and administrative expenses

	2020	2019
	RO'000	RO'000
Marketing and advertising*	(1,674)	(1,706)
Premises and equipment	(2,951)	(2,784)
Communications	(538)	(526)
Insurance	(1,066)	(1,067)
Other administrative expenses	(16,785)	(15,646)
	(23,014)	(21,729)

*Marketing and advertising expenses for the current year include RO1.2million (2019: RO1.2 million) of "Mandoos Prize" draw expenses.

7 Amortisation and impairment of intangible assets

	2020	2019
	RO'000	RO'000
Core deposits	-	(733)
Customer relationships	-	(219)
Softwares – amortisation	(505)	(259)
Softwares – impairment	(3,798)	-
	(4,303)	(1,211)

8 Taxation

	2020	2019
	RO'000	RO'000
Statement of comprehensive income:		
Current tax:		
- Current year	(2,854)	(6,329)
- Prior years	1,139	1,103
Deferred tax	2,392	(187)
	677	(5,413)
Statement of other comprehensive income:		
Deferred tax	(64)	(139)

Tax reconciliation

	2020	2019
	RO'000	RO'000
(Loss) / profit before tax	(8,888)	34,697
Tax expenses at 15% on accounting profit before tax	1,333	(5,205)
Add / (less) tax effect of:		
Non-taxable income and gains	2	-
Permanent disallowed expenses	(1,326)	(810)
Adjustments in respect of prior periods	668	619
Other items	-	(17)
Tax charge as per the statement of comprehensive income	677	(5,413)

Notes to the Financial Statements (continued)
As of 31 December 2020

Movement of current tax liability

	2020	2019
	RO'000	RO'000
At 1 January	**7,387**	8,179
- Current year charge	**2,854**	6,329
- Prior year (release) / charge	**(797)**	(1,103)
- Paid during the year	**(5,242)**	(6,018)
At 31 December	**4,202**	7,387

Movement of net deferred tax assets before offsetting

	Loan impairment allowances	FVOCI Investment	Others*	Total
2020 January 1 at - Assets	2,172	(35)	(59)	2,078
Income statement	454		1,937	2,391
Other comprehensive income:				
FVOCI investment	-	(64)	-	(64)
2020 December 31 at - Assets	2,626	(99)	1,878	4,405
Assets - at 1 January2019	2,198	104	102	2,404
Income statement	(26)	-	(161)	(187)
Other comprehensive income:				
FVOCI investment	-	(139)	-	(139)
Assets - at 31 December2019	2,172	(35)	(59)	2,078

*Others include deferred tax assets on expense provisions and temporary difference between accounting and tax base of property and equipment.

The tax assessments of the Bank up to and including the tax year 2017 have been completed by the Secretariat General for Taxation (SGT). The tax returns of the Bank for the Tax years 2018 to 2019 have not yet been assessed by the SGT.

The tax rate applicable to the Bank in Oman is 15%. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments, the average effective tax rate is (7.62)% (2019: 15.6%).

The difference between the applicable tax rate of 15% and the effective tax rate of (7.62)% arises mainly due to the adjustment to the accounting income in accordance to the Tax law and certain probable adjustment basis on the prior year tax assessments. The adjustments are based on the current understanding of the existing laws, regulations and practices.

Deferred tax asset has been computed at the tax rate of 15% (2019: 15%).

Notes to the Financial Statements (continued)
As of 31 December 2020

9(a) (Loss) / earnings per share – basic and diluted

Basic (loss) / earnings per share is calculated by dividing (loss) / profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2020	2019
Weighted average number of shares in issue (Number '000)	**2,000,312**	2,000,312
(Loss) / profit for the year (RO'000)	**(8,211)**	29,284
Earnings per share – basic and diluted (RO)	**(0.004)**	0.015

9(b) Net asset per share

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

	2020	2019
Number of shares in issue (Number '000)	**2,000,312**	2,000,312
Net assets (RO'000)	**327,486**	351,992
Net assets per share (RO)	**0.164**	0.176

10(a) Cash and balances with central bank

	2020	2019
	RO'000	RO'000
Cash in hand	**34,711**	28,307
Balance held with central bank	**186,015**	253,078
Less: ECL allowances	**(241)**	(199)
	220,485	281,186

10(b) Due from banks

	2020	2019
	RO'000	RO'000
Placements	**169,592**	168,214
Nostro balances	**58,026**	37,433
Less: ECL allowances	**(170)**	(52)
	227,448	205,595

11 Loans and advances to customers - net

	2020	2019
	RO'000	RO'000
Overdrafts	**157,030**	172,654
Credit cards	**27,809**	33,720
Loans	**1,168,280**	1,280,726
Clean import loans	**65,834**	87,338
Bills discounted/purchased	**10,717**	9,024
Gross loans and advances	**1,429,670**	1,583,462
Allowances for ECL	**(52,672)**	(38,776)
Reserved interest*	**(13,416)**	(41,952)
Loans and advances (net)	**1,363,582**	1,502,734

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

Notes to the Financial Statements (continued)
As of 31 December 2020

Reconciliation / movement of allowance for ECL / loan impairment and reserved interest:

The following disclosure provides a reconciliation of the Bank's gross carrying/nominal amount and allowances for customer loans and advances, due from banks, loan commitments and guarantees for the year ended 31 December 2020.

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2020	1,778,645	5,320	660,613	14,727	72,412	21,535	2,511,670	41,582
-Transfers from stage 1 to stage 2	(381,755)	(3,569)	381,755	3,569	-	-	-	-
-Transfers from stage 2 to stage 1	265,733	5,256	(265,733)	(5,256)	-	-	-	-
-Transfers to stage 3	(6,056)	(45)	(8,063)	(1,536)	14,119	1,581	-	-
-Transfers from stage 3	-	-	384	358	(384)	(358)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(1,190)	-	2,703	-	100	-	1,613
Net new lending / (repayments) and changes to risk parameters	(145,532)	3,836	15,623	6,051	2,839	8,942	(127,070)	18,829
Assets written off	-	-	-	-	(36,094)	(4,602)	(36,094)	(4,602)
At 31 December 2020	1,511,035	9,608	784,579	20,616	52,892	27,198	2,348,506	57,422
ECL charge for the period		(2,646)		(8,754)		(9,042)		(20,442)
Recoveries		-		-		3,320		3,320
Total ECL (charge)/release for the period		(2,646)		(8,754)		(5,722)		(17,122)

	At 31 December 2020		For the year ended 31 December 2020
	Gross carrying / nominal amount	Allowance for ECL	ECL charge
	RO'000	RO'000	RO'000
As above	2,348,506	57,422	(17,122)
Other financial assets measured at amortised cost	242,875	408	(143)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	2,591,381	57,830	(17,265)
Debt instruments measured at FVOCI (note 12)	483,217	811	(713)
Total allowance for ECL/total profit or loss ECL charge for the period	3,074,598	58,641	(17,978)

Notes to the Financial Statements (continued)
As of 31 December 2020

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2019	1,709,789	4,097	530,547	13,564	66,145	18,993	2,306,481	36,654
-Transfers from stage 1 to stage 2	(279,797)	(624)	279,797	624	-	-	-	-
-Transfers from stage 2 to stage 1	83,543	830	(83,543)	(830)	-	-	-	-
-Transfers to stage 3	(1,133)	(2)	(8,402)	(2,132)	9,535	2,134	-	-
-Transfers from stage 3	-	-	2,682	1,343	(2,682)	(1,343)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(536)	-	(109)	-	1,367	-	722
Net new lending / (repayments) and changes to risk parameters	266,243	1,555	(60,468)	2,267	1,673	2,057	207,448	5,879
Assets written off	-	-	-	-	(2,259)	(1,673)	(2,259)	(1,673)
At 31 December 2019	1,778,645	5,320	660,613	14,727	72,412	21,535	2,511,670	41,582
ECL charge for the period	-	(1,019)	-	(2,158)	-	(3,424)	-	(6,601)
Recoveries	-	-	-	-	-	3,218	-	3,218
Total ECL (charge)/release for the period	-	(1,019)	-	(2,158)	-	(206)	-	(3,383)

	At 31 December 2019		For the year ended 31 December 2019
	Gross carrying / nominal amount	Allowance for ECL	ECL (charge) / release
	RO'000	RO'000	RO'000
As above	2,511,670	41,582	(3,383)
Other financial assets measured at amortised cost	315,667	251	(25)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	2,827,337	41,833	(3,408)
Debt instruments measured at FVOCI	485,950	99	(19)
Total allowance for ECL/total profit or loss ECL charge for the period	3,313,287	41,932	(3,427)

Notes to the Financial Statements (continued)
As of 31 December 2020

Wholesale lending - Reconciliation of changes in gross carrying/nominal amount and allowances for loans and customers and due from banks including loan commitments and financial guarantees

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2020	1,250,168	3,533	642,198	10,585	65,852	19,484	1,958,218	33,602
-Transfers from stage 1 to stage 2	(351,017)	(3,290)	351,017	3,290	-	-	-	-
-Transfers from stage 2 to stage 1	255,204	3,895	(255,204)	(3,895)	-	-	-	-
-Transfers to stage 3	(6,056)	(45)	(2,308)	(143)	8,364	188	-	-
-Transfers from stage 3	-	-	-	-	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	-	(720)	-	2,258	-	66	-	1,604
Net new lending / (repayments) and changes to risk parameters	(111,031)	2,039	23,016	5,291	2,201	5,305	(85,814)	12,635
Assets written off	-	-	-	-	(31,357)	-	(31,357)	-
At 31 December 2020	1,037,268	5,412	758,719	17,386	45,060	25,043	1,841,047	47,841
ECL charge for the year	-	(1,319)	-	(7,549)	-	(5,371)		(14,239)
Recoveries	-	-	-	-	-	37		37
Total ECL charge for the year	-	(1,319)	-	(7,549)	-	(5,334)		(14,202)

Notes to the Financial Statements (continued)
As of 31 December 2020

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2019	1,150,332	1,482	510,311	9,520	59,913	16,235	1,720,556	27,237
-Transfers from stage 1 to stage 2	(265,745)	(551)	265,745	551	-	-	-	-
-Transfers from stage 2 to stage 1	75,937	385	(75,937)	(385)	-	-	-	-
-Transfers to stage 3	(1,133)	(2)	(2,072)	(64)	3,205	66	-	-
-Transfers from stage 3	-	-	-	-	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	-	(277)	-	(317)	-	1,339	-	745
Net new lending / (repayments) and changes to risk parameters	290,777	2,496	(55,849)	1,280	3,196	1,948	238,124	5,724
Assets written off	-	-	-	-	(462)	(104)	(462)	(104)
At 31 December 2019	1,250,168	3,533	642,198	10,585	65,852	19,484	1,958,218	33,602
ECL charge for the year	-	(2,219)	-	(963)	-	(3,287)	-	(6,469)
Recoveries	-	-	-	-	-	111	-	111
Total ECL charge for the year	-	(2,219)	-	(963)	-	(3,176)	-	(6,358)

Personal lending - Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers and due from banks including loan commitments and financial guarantee

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2020	528,477	1,787	18,415	4,142	6,560	2,051	553,452	7,980
-Transfers from stage 1 to stage 2	(30,738)	(279)	30,738	279	-	-	-	-
--Transfers from stage 2 to stage 1	10,529	1,361	(10,529)	(1,361)	-	-	-	-
-Transfers to stage 3	-	-	(5,755)	(1,393)	5,755	1,393	-	-
-Transfers from stage 3	-	-	384	358	(384)	(358)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(470)	-	445	-	34	-	9
Net new lending / (repayments) and changes to risk parameters	(34,501)	1,797	(7,393)	760	638	3,637	(41,256)	6,194
Assets written off	-	-	-	-	(4,737)	(4,602)	(4,737)	(4,602)
At 31 December 2020	473,767	4,196	25,860	3,230	7,832	2,155	507,459	9,581
ECL release / (charge) for the period	-	(1,327)	-	(1,205)	-	(3,671)	-	(6,203)
Recoveries	-	-	-	-	-	3,283	-	3,283
Total ECL release / (charge) for the period	-	(1,327)	-	(1,205)	-	(388)	-	(2,920)

Notes to the Financial Statements (continued)
As of 31 December 2020

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2019	559,457	2,615	20,236	4,044	6,232	2,758	585,925	9,417
-Transfers from stage 1 to stage 2	(14,052)	(73)	14,052	73	-	-	-	-
-Transfers from stage 2 to stage 1	7,606	445	(7,606)	(445)	-	-	-	-
-Transfers to stage 3	-	-	(6,330)	(2,068)	6,330	2,068	-	-
-Transfers from stage 3	-	-	2,682	1,343	(2,682)	(1,343)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(259)	-	208	-	28	-	(23)
Net new lending / (repayments) and changes to risk parameters	(24,534)	(941)	(4,619)	987	(1,523)	109	(30,676)	155
Assets written off	-	-	-	-	(1,797)	(1,569)	(1,797)	(1,569)
At 31 December 2019	528,477	1,787	18,415	4,142	6,560	2,051	553,452	7,980
ECL release / (charge) for the period	-	1,200	-	(1,195)	-	(137)	-	(132)
Recoveries	-	-	-	-	-	3,107	-	3,107
Total ECL release / (charge) for the period	-	1,200	-	(1,195)	-	2,970	-	2,975

Notes to the Financial Statements (continued)
As of 31 December 2020

The movement on reserved interest during the year is analysed as follows:

	2020	2019
	RO'000	RO'000
At 1 January 2020	41,952	38,892
Reserved during the year	3,394	4,356
Released to the statement of comprehensive income	(438)	(711)
Written off during the year	(31,492)	(585)
At 31 December 2020	13,416	41,952

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

	As per CBO norms	As per IFRS 9	Difference
At 31 December 2020	**RO'000**	**RO'000**	**RO'000**
Impairment loss (charged) / released to profit and loss account	**(4,415)**	**(17,978)**	**(13,563)**
Provisions required*	**41,451**	**58,641**	**17,190**
Gross NPL ratio (percentage)	**3.54%**	**3.54%**	**-**
Net NPL ratio (percentage)	**1.01%**	**0.88%**	**(0.13)%**

	As per CBO norms	As per IFRS 9	Difference
At 31 December 2019	RO'000	RO'000	RO'000
Impairment loss (charged) / released to profit and loss account	(3,049)	(3,427)	(378)
Provisions required*	37,036	41,932	4,896
Gross NPL ratio (percentage)	4.47%	4.47%	-
Net NPL ratio (percentage)	0.79%	0.59%	-0.20%

*Impairment loss charged in these financial statements is based on IFRS 9 as it is more than the CBO provision requirement.

Notes to the Financial Statements (continued)

As of 31 December 2020

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as of 31 December 2020

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) = (3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Standard	Stage 1	837,054	11,475	8,659	2,816	828,395	139
	Stage 2	527,346	5,445	15,751	(10,306)	511,595	930
	Stage 3	-	-	-	-	-	-
		1,364,400	16,920	24,410	(7,490)	1,339,990	1,069
Special mention	Stage 1	209	2	10	(8)	199	-
	Stage 2	14,057	147	1,890	(1,743)	12,167	38
	Stage 3	417	83	88	(5)	329	19
		14,683	232	1,988	(1,756)	12,695	57
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	3,711	1,106	1,922	(816)	1,789	250
		3,711	1,106	1,922	(816)	1,789	250
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	6,429	3,110	4,644	(1,534)	1,785	213
		6,429	3,110	4,644	(1,534)	1,785	213
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	40,447	20,083	19,708	375	20,739	11,827
		40,447	20,083	19,708	375	20,739	11,827
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,186,440	-	1,170	(1,170)	1,185,270	-
	Stage 2	456,600	-	3,963	(3,963)	452,637	-
	Stage 3	1,888	-	836	(836)	1,052	-
		1,644,928	-	5,969	(5,969)	1,638,959	-
Total	Stage 1	2,023,703	11,477	9,839	1,638	2,013,864	139
	Stage 2	998,003	5,592	21,604	(16,012)	976,399	968
	Stage 3	52,892	24,382	27,198	(2,816)	25,694	12,309
		3,074,598	41,451	58,641	(17,190)	3,015,957	13,416

Notes to the Financial Statements (continued)
As of 31 December 2020

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as at 31 December 2019

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) = (3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Standard	Stage 1	999,680	13,678	4,619	9,059	995,061	124
	Stage 2	494,724	5,096	11,391	(6,295)	483,333	872
	Stage 3	-	-	-	-	-	-
		1,494,404	18,774	16,010	2,764	1,478,394	996
Special mention	Stage 1	-	-	-	-	-	-
	Stage 2	17,716	184	1,856	(1,672)	15,860	44
	Stage 3	575	107	183	(76)	392	16
		18,291	291	2,039	(1,748)	16,252	60
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	2,212	551	1,314	(763)	898	131
		2,212	551	1,314	(763)	898	131
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	3,511	1,590	2,318	(728)	1,193	334
		3,511	1,590	2,318	(728)	1,193	334
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	65,044	15,830	17,095	(1,265)	47,949	40,431
		65,044	15,830	17,095	(1,265)	47,949	40,431
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,574,761	-	1,041	(1,041)	1,573,720	-
	Stage 2	153,994	-	1,491	(1,491)	152,503	-
	Stage 3	1,071	-	624	(624)	447	-
		1,729,826	-	3,156	(3,156)	1,726,670	-
Total	Stage 1	2,574,441	13,678	5,660	8,018	2,568,781	124
	Stage 2	666,434	5,280	14,738	(9,458)	651,696	916
	Stage 3	72,413	18,078	21,534	(3,456)	50,879	40,912
		3,313,288	37,036	41,932	(4,896)	3,271,356	41,952

Notes to the Financial Statements (continued)

As of 31 December 2020

Restructured loans and advances (as per CBO illustrative disclosure) as at 31 December 2020

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required a per CBONorms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Classified as performing	Stage 1	1,277	13	15	(2)	1,262	-
	Stage 2	37,624	376	1,671	(1,295)	35,953	-
	Stage 3	417	83	88	(5)	329	19
Sub Total		39,318	472	1,774	(1,302)	37,544	19
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	16,872	10,012	10,770	(758)	6,102	633
		16,872	10,012	10,770	(758)	6,102	633
Total	Stage 1	1,277	13	15	(2)	1,262	-
	Stage 2	37,624	376	1,671	(1,295)	35,953	-
	Stage 3	17,289	10,095	10,858	(763)	6,431	652
		56,190	10,484	12,544	(2,060)	43,646	652

Restructured loans and advances (as per CBO illustrative disclosure) as at 31 December 2019

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	37,368	374	950	(576)	36,418	-
	Stage 3	575	106	175	(69)	400	16
Sub Total		37,943	480	1,125	(645)	36,818	16
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	29,496	8,781	9,877	(1,096)	19,619	15,371
		29,496	8,781	9,877	(1,096)	19,619	15,371
Total	Stage 1	-	-	-	-	-	-
	Stage 2	37,368	374	950	(576)	36,418	-
	Stage 3	30,071	8,887	10,052	(1,165)	20,019	15,387
		67,439	9,261	11,002	(1,741)	56,437	15,387

Notes to the Financial Statements (continued)
As of 31 December 2020

12 Financial investments

Financial investments details by sector are provided as follows:

	Fair value	Fair value	**Carrying value**	Carrying value	**Cost**	Cost
	31 December	31 December	**31 December**	31 December	**31 December**	31 December
	2020	2019	**2020**	2019	**2020**	2019
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Marketable securities – local (MSM)						
Government bonds*	**67,670**	65,599	**67,670**	65,599	**66,617**	64,982
Unquoted and other investments						
Treasury bills*	**415,547**	420,101	**415,547**	420,101	**415,515**	420,107
Unquoted Omani shares	**210**	260	**210**	260	**260**	260
Unquoted foreign shares	**7**	7	**7**	7	**7**	7
Investment fund units	**135**	2,118	**135**	2,118	**107**	2,879
	415,899	422,486	**415,899**	422,486	**415,889**	423,253
Total	**483,569**	488,085	**483,569**	488,085	**482,506**	488,235

*ECL allowance on financial investments amounting to RO0.8 million (2019: RO0.1 million) has been recorded in FVOCI reserve.

Carrying amount of financial investments	**31 December**	31 December
	2020	2019
	RO'000	RO'000
Financial investments measured at fair value through other comprehensive income		
Treasury bills	**415,547**	420,101
Government bonds	**67,670**	65,599
Other investments	**200**	250
	483,417	485,950
Financial investments measured at fair value through profit or loss		
Equity investments	**152**	2,135
	483,569	488,085

Movement of financial investments – FVOCI is given below:

	2020	2019
	RO'000	RO'000
At 1 January	**485,950**	498,986
Purchased during the year	**2,522,329**	2,499,885
Matured / sold during the year	**(2,524,809)**	(2,517,320)
Gain from changes in fair value	**423**	927
Amortisation of discount, net	**600**	3,075
Exchange differences	**(1,076)**	397
At 31 December	**483,417**	485,950

Notes to the Financial Statements (continued)
As of 31 December 2020

Movement of financial investments – FVTPL is given below:

	2020	2019
	RO'000	RO'000
Equity investments - FVTPL		
At 1 January	**2,135**	2,340
Disposals	**(1,878)**	(172)
Revaluations	**(105)**	(33)
At 31 December	**152**	2,135

13 Other assets

	2020	2019
	RO'000	RO'000
Acceptances	**22,149**	34,282
ECL on acceptances	**(167)**	(52)
Acceptances net of ECL	**21,982**	34,230
Derivatives - positive mark-to-market [note 22(c)]	**10,569**	2,789
Prepayments	**408**	808
Right-of-use assets	**3,180**	3,436
Others	**471**	3,836
	36,610	45,099

Depreciation of RO1.1 million (2019: RO1.0 million) and impairment of RO0.5 million (2019: nil) were booked on right-of-use assets for the year.

14 Intangible assets

	2020	2019
	RO'000	RO'000
Computer Software	**5,025**	2,294
Less: accumulated amortization	**(1,227)**	(722)
Less: Impairment (note 16)	**(3,798)**	-
	-	1,572

Notes to the Financial Statements (continued)
As of 31 December 2020

15 Property and equipment

The movement in property and equipment during the year 2020 is as follows:

	Freehold land and buildings	Leasehold property and improvements	Equipment, furniture and fixtures	Motor vehicles	Computer equipment	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cost						
1 January 2020	**25,663**	**5,185**	**7,254**	**124**	**7,156**	**45,382**
Transfer	**10**	**(120)**	**110**	**-**	**-**	**-**
Additions	**1,504**	**2,068**	**854**	**21**	**1,191**	**5,638**
Disposals/write offs	**(201)**	**(830)**	**(993)**	**(43)**	**(1)**	**(2,068)**
31 December 2020	**26,976**	**6,303**	**7,225**	**102**	**8,346**	**48,952**
Accumulated depreciation and impairment						
1 January 2020	**4,332**	**4,131**	**6,237**	**101**	**6,933**	**21,734**
Charge for the year	**136**	**312**	**464**	**9**	**250**	**1,171**
Impairment for the year (note 16)	**5,710**	**2,684**	**-**	**-**	**-**	**8,394**
Transfer	**(20)**	**-**	**20**	**-**	**-**	**-**
Disposals/write offs	**(22)**	**(824)**	**(946)**	**(43)**	**-**	**(1,835)**
31 December 2020	**10,136**	**6,303**	**5,775**	**67**	**7,183**	**29,464**
Net book value						
31 December 2020	**16,840**	**-**	**1,450**	**35**	**1,163**	**19,488**

The movement in property and equipment for the year 2019 was as follows:

	Freehold land and buildings	Leasehold property and improvements	Equipment, furniture and fixtures	Motor vehicles	Computer equipment	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost						
1 January 2019	29,265	5,064	7,669	200	7,916	50,114
Additions	158	132	390	-	128	808
Transfer to intangible assets	-	-	-	-	(737)	(737)
Disposals/write offs	(3,760)	(11)	(805)	(76)	(151)	(4,803)
31 December 2019	25,663	5,185	7,254	124	7,156	45,382
Accumulated depreciation						
1 January 2019	6,814	3,766	6,598	163	7,252	24,593
Charge for the year	186	376	418	14	306	1,300
Transfer to intangible assets	-	-	-	-	(475)	(475)
Disposals/write offs	(2,668)	(11)	(779)	(76)	(150)	(3,684)
31 December 2019	4,332	4,131	6,237	101	6,933	21,734
Net book value						
31 December 2019	21,331	1,054	1,017	23	223	23,648

16 31 December 2020 impairment test

Having considered the current macroeconomic conditions and its impact on the bank's operations, an impairment test was performed at 31 December 2020. As a result, an impairment charge of RO12.7 million was recognised in 2020. Under IAS 36, a non-financial asset is impaired when its recoverable amount is below its balance sheet carrying amount. The recoverable amount is the higher of Fair Value Less Cost to Sell ('FVLCTS') and Value in Use ('VIU').

As non-financial assets do not typically produce independent cash flows, they need to be allocated to Cash Generating Units ('CGU's) for impairment testing purposes. The Bank's CGUs are its global businesses (i.e. WPB, GB&M and CMB) which represent the smallest group of assets that produce independent cash flows and is consistent with how management monitors the Bank's operations. The balance sheet carrying amount of each CGU is based on the total net assets allocated to the CGU.

Basis of the recoverable amount

The recoverable amount of each CGU is determined by a VIU calculation. The VIU is calculated by discounting management's cash flow projections for the CGU over the short to medium term. Earnings beyond the short to medium term are then extrapolated in perpetuity using a long-term growth rate to derive a terminal value, which comprises the majority of the VIU. The management considered other factors (including qualitative factors) to ensure that the inputs to the VIU calculation remain appropriate.

Management's judgement in estimating the cash flows of a CGU

The cash flow projections for each CGU are based on plans approved by the Board. The Board challenges and endorses planning assumptions in light of internal capital allocation decisions necessary to support the Bank's strategy, current market conditions and macroeconomic outlook. For the 31 December 2020 impairment test, cash flow projections until the end of 2025 were considered.

Discount rate

The rate used to discount the cash flows is based on the cost of capital assigned to each CGU, which is derived using a Capital Asset Pricing Model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each CGU are refined to reflect the rates of inflation for the Sultanate of Oman within which the CGU operates.

Long-term growth rate

The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the Group of business units making up the CGUs.

The VIU for each CGU was then compared to its carrying value. Where the VIU is greater than the carrying value, no impairment is recognised. Where the VIU is less than the carrying value, the non-financial assets allocated to the CGU are considered to be impaired except to the extent they are supported by a FVLCTS.

Impairment results and key assumptions in VIU calculation

	Carrying amount RO'000	Value in use RO'000	Impairment RO'000	Discount rate %	Growth rate beyond initial cash flow projections %
Cash generating unit					
CMB	115,983	32,340	2,149	13.9	1.87
WPB	97,943	15,785	5,305	13.5	1.87
GB&M	119,157	46,585	1,076	14.4	1.87
2020 impairment recognised[1]			**12,658**		

1. Including an impairment loss of RO'000 4,127 recorded in the Corporate Center.

The impairment recognised includes RO3.8 million impairment of intangible asset and RO8.9 million impairment for other non-financial assets. The impairment loss was included in the statement of comprehensive income under the line item 'Depreciation and impairment of property, equipment and right-of-use assets' and 'Amortisation and impairment of intangible assets'.

17 Due to banks

	2020	2019
	RO'000	RO'000
Vostro and other balances	63,774	54,754
	63,774	54,754

Notes to the Financial Statements (continued)
As of 31 December 2020

18 Deposits from customers

	2020	2019
	RO'000	RO'000
Current and call	893,758	978,775
Savings	416,286	392,825
Time deposits	591,533	697,179
Others	4,194	2,678
	1,905,771	2,071,457

19 Other liabilities

	2020	2019
	RO'000	RO'000
Acceptances	22,149	34,282
Accruals and deferred income	4,973	5,525
Obligations under finance leases	3,208	2,772
Provisions [note 19(b)]	446	219
ECL on off balance sheet exposure and other commitments	4,580	2,754
Retirement benefit liability [note 19(a)]	1,389	1,309
Derivatives - negative mark-to-market [note 22(c)]	4,337	1,023
Others	13,272	16,523
	54,354	64,407

19(a) Movement of retirement benefit liability

	2020	2019
	RO'000	RO'000
Opening defined benefit obligation	1,309	1,246
Employer's current service cost	145	151
Interest on obligation	53	68
Remeasurement of defined benefit liability	(36)	(63)
Benefits paid	(82)	(93)
Present value of liabilities at the end of the period	1,389	1,309

19(b) Movement of provisions

	2020	2019
	RO'000	RO'000
At 1 January	219	400
Provision transferred during the year	323	-
Provision made during the year	5	165
Provision utilised during the year	(84)	(56)
Provision released during the year	(17)	(290)
At 31 December	446	219

Notes to the Financial Statements (continued)
As of 31 December 2020

20 Share capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

The share capital of the Bank is divided into 2,000,312,790 fully paid ordinary shares of RO0.100 (2019: 2,000,312,790 fully paid ordinary shares of RO0.100 each) against the authorised ordinary share capital of 7,500 million shares of RO0.100 each (2019: 7,500 million shares of RO0.100 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:

	2020	2019
	Number of Shares	Number of shares
HSBC Middle East Holdings BV	**1,020,159,523**	1,020,159,523

21 Reserves

(a) Legal reserve

In accordance with the Commercial Companies Law of Oman, 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 investments as explained in note 2.2 (c) of the financial statements.

22 Contingent liabilities, commitments and derivatives

(a) Contingent liabilities and other commitments

	2020	2019
	RO'000	RO'000
Undrawn unconditionally cancellable commitments*	**522,150**	606,574
Undrawn unconditionally non-cancellable commitments	**61,438**	58,847
Forward foreign exchange contracts (note 22 (c))	**195,064**	239,455
Interest rate swaps (note 22 (c))	**222,915**	188,650
	1,001,567	1,093,526
Documentary credits	**82,622**	97,014
Guarantees and performance bonds	**510,843**	535,007
	1,595,032	1,725,547

* Undrawn unconditionally cancellable commitments of RO98 million (2019 : RO91 million) are considered as part of loan commitments for IFRS 9.

(b) Legal cases

As at 31 December 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 does not consider it necessary to make any additional provisions in this regard.

(c) Derivatives

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instruments, reference rate or index. Derivative instruments include forwards, futures, swaps and options.

The table below sets out the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional contract amounts of derivatives indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk. Forward foreign exchange contracts and interest rate swaps are measured using level 2 fair valuation hierarchy.

31 December 2020	**Positive fair value**	**Negative fair value**	**Total notional amount**
	RO'000	**RO'000**	**RO'000**
Derivatives:			
Forward foreign exchange contracts (note 22 (a))	**54**	**4,337**	**195,064**
Interest rate swaps*	**10,515**	**-**	**222,915**
	10,569	**4,337**	**417,979**

31 December 2019:	Positive fair value	Negative fair value	Total notional amount
	RO'000	RO'000	RO'000
Derivatives:			
Forward foreign exchange contracts (note 22 (a))	67	1,023	239,455
Interest rate swaps*	2,722	-	188,650
	2,789	1,023	428,105

*The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

The Bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term deposits due to movements in market interest rates.

Interest rate benchmark reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

The first set of amendments ('Phase 1) to IFRS 9 and IAS 39, which were published in September 2019 and endorsed in January 2020, primarily allowed to assume that the interbank offered rates ('Ibors') are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to nearly risk free rates ('RFRs') is resolved. The second set of amendments ('Phase 2'), issued in August 2020 allows to modify hedge documentation to reflect the components of hedge relationships which have transitioned to RFRs on an economically equivalent basis as a direct result of the Ibor transition. While the application of Phase 1 amendments is mandatory for accounting periods starting on or after 1 January 2020, the Bank has chosen to early apply the Phase 2 amendments from the beginning of 2020.

The Bank has fair value hedge accounting relationships that are exposed to different Ibors, predominantly US dollar Libor. Many of the existing derivatives and other financial instruments designated in relationships referencing these benchmarks are expected to transition to RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Bank's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Bank that is expected to be directly affected by market-wide Ibors reform and in scope of Phase 1 and Phase 2 amendments.

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Hedging Instrument impacted by IBOR Reform

	Impacted by IBOR reform	NOT impacted by IBOR reform	Notional Contract amount
	RO'000	RO'000	RO'000
Fair value hedges at 31 December 2020	222,915	-	222,915
Fair value hedges at 31 December 2019	188,650	-	188,650

IBOR transition

Regulators and central banks globally have convened national working groups ('NWGs') to identify replacement rates for the Ibors that will not be used beyond 2021 and, where appropriate, to facilitate an orderly transition to these rates. Given the current lack of alternatives, the Bank has contracts referencing Ibors with maturities beyond 2021. The Bank is part of HSBC Group's Ibor transition programme with the objective of facilitating an orderly transition from Ibors for the Bank and its clients.

Financial instruments impacted by Ibor reform

Amendments to IFRSs issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to an amortised cost financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The Bank has adopted the amendments from1 January 2020.

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD Libor	GBP Libor	JPY Libor	Others
At 31 December 2020	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Non-derivative financial assets	224,044	-	-	-
Non-derivative financial liabilities	-	-	-	-
Derivative notional contract amount	169,015	-	-	-

The amounts in the above table provide an indication of the extent of the Bank's exposure to the Ibor benchmarks which are due to be replaced. Amounts are in respect of the financial instruments that:

• contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;

• have a contractual maturity date after 31 December 2021, the date by which Libor is expected to cease;

• are recognised on the Bank's consolidated balance sheet

The administrator of Libor, ICE Benchmark Administration ('IBA'), has announced a proposal to extend the publication date of most USD Libor tenors until 30 June 2023. Publication of one week and two month tenors will cease after 31 December 2021. This proposal, if endorsed, would moderately reduce the amounts presented in the above table as some financial instruments included will reach their contractual maturity date prior to 30 June 2023.

Notes to the Financial Statements (continued)
As of 31 December 2020

23 Maturities of assets and liabilities

Maturity analysis of assets and liabilities is as follows:

	On demand or within 3 months	3 to 12 months	Over 1 year	Total
	RO'000	RO'000	RO'000	RO'000
At 31 December 2020				
Assets				
Cash and balances with central bank	**220,485**	**-**	**-**	**220,485**
Due from banks	**212,861**	**14,587**	**-**	**227,448**
Loans and advances to customers - net	**388,216**	**83,067**	**892,299**	**1,363,582**
Financial investments	**415,548**	**686**	**67,335**	**483,569**
Other assets	**32,746**	**3,864**	**-**	**36,610**
Intangible assets	**-**	**-**	**-**	**-**
Property and equipment	**-**	**-**	**19,488**	**19,488**
Deferred tax assets	**-**	**-**	**4,405**	**4,405**
Total assets	**1,269,856**	**102,204**	**983,527**	**2,355,587**
Liabilities and equity				
Due to banks	**63,774**	**-**	**-**	**63,774**
Deposits from customers	**1,456,002**	**127,419**	**322,350**	**1,905,771**
Other liabilities	**49,072**	**3,893**	**1,389**	**54,354**
Current tax liabilities	**2,854**	**-**	**1,348**	**4,202**
Net equity	**-**	**-**	**327,486**	**327,486**
Total liabilities and equity	**1,571,702**	**131,312**	**652,573**	**2,355,587**

	On demand or within 3 months	3 to 12 months	Over 1 year	Total
	RO'000	RO'000	RO'000	RO'000
At 31 December 2019				
Assets				
Cash and balances with central bank	281,186	-	-	281,186
Due from banks	205,595	-	-	205,595
Loans and advances to customers - net	547,835	74,846	880,053	1,502,734
Financial investments	390,290	73,873	23,922	488,085
Other assets	35,666	9,433	-	45,099
Intangible assets	-	-	1,572	1,572
Property and equipment	-	-	23,648	23,648
Deferred tax assets	-	-	2,078	2,078
Total assets	1,460,572	158,152	931,273	2,549,997
Liabilities and equity				
Due to banks	54,754	-	-	54,754
Deposits from customers	1,570,409	160,139	340,909	2,071,457
Other liabilities	53,651	9,447	1,309	64,407
Current tax liabilities	6,329	-	1,058	7,387
Net equity	-	-	351,992	351,992
Total liabilities and equity	1,685,143	169,586	695,268	2,549,997

Although the contractual repayments of many customer accounts are on demand or at short notice, in practice short-term deposit balances remain stable as inflows and outflows broadly match in the normal course of business.

24 Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the year to repricing of assets and that of the corresponding liability funding. The Bank manages these mismatches in accordance with HSBC Group policy guidelines and reduces risk by matching the repricing of assets and liabilities through various means. Significant changes in gap positions can be made to adjust the profile as market outlooks change. Additionally, whilst mismatches exist, liabilities maturing are to a great extent historically rolled over rather than withdrawn.

	Effective average interest rate	Within 3 months	3 to 12 months	Over 1 year	Non interest sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2020						
Assets						
Cash and balances with central bank	0.18%	32,725	-	-	187,760	220,485
Due from banks	0.47%	169,511	14,587	-	43,350	227,448
Loans and advances to customers – net	4.41%	402,183	201,904	759,495	-	1,363,582
Financial investments	0.94%	415,548	686	66,983	352	483,569
Other assets		-	-	-	36,610	36,610
Intangible assets		-	-	-	-	-
Property and equipment		-	-	-	19,488	19,488
Deferred tax assets		-	-	-	4,405	4,405
Total assets		1,019,967	217,177	826,478	291,965	2,355,587
Liabilities and equity						
Due to banks	0.41%	-	-	-	63,774	63,774
Deposits from customers	0.81%	344,868	442,626	316,845	801,432	1,905,771
Other liabilities		-	-	-	54,354	54,354
Current tax liabilities		-	-	-	4,202	4,202
Net equity		-	-	-	327,486	327,486
Total liabilities and equity		344,868	442,626	316,845	1,251,248	2,355,587
Interest sensitivity gap:						
- **Net**		675,099	(225,449)	509,633	(959,283)	
- **Cumulative**		675,099	449,650	959,283	-	

Notes to the Financial Statements (continued)
As of 31 December 2020

	Effective average interest rate	Within 3 months	3 to 12 months	Over 1 year	Non interest sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2019						
Assets						
Cash and balances with central bank	1.10%	34,650	-	-	246,536	281,186
Due from banks	2.11%	168,162	-	-	37,433	205,595
Loans and advances to customers – net	4.73%	566,080	191,744	744,910	-	1,502,734
Financial investments	1.06%	390,290	73,873	21,537	2,385	488,085
Other assets		-	-	-	45,099	45,099
Intangible assets		-	-	-	1,572	1,572
Property and equipment		-	-	-	23,648	23,648
Deferred tax assets		-	-	-	2,078	2,078
Total assets		1,159,182	265,617	766,447	358,751	2,549,997
Liabilities and equity						
Due to banks	-	-	-	-	54,754	54,754
Deposits from customers	0.80%	419,621	462,805	338,941	850,090	2,071,457
Other liabilities		-	-	-	64,407	64,407
Current tax liabilities		-	-	-	7,387	7,387
Net equity		-	-	-	351,992	351,992
Total liabilities and equity		419,621	462,805	338,941	1,328,630	2,549,997
Interest sensitivity gap:						
- Net		739,561	(197,188)	427,506	(969,879)	
- Cumulative		739,561	542,373	969,879	-	

Notes to the Financial Statements (continued)

As of 31 December 2020

25 Financial assets and liabilities

Accounting classifications and fair values as at 31 December 2020

	Financial assets and liabilities at FVOCI	Financial assets and liabilities at FVTPL	Financial assets and liabilities at amortised cost	Total
	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	-	-	**220,485**	**220,485**
Due from banks	-	-	**227,448**	**227,448**
Loans and advances to customers - net	-	-	**1,363,582**	**1,363,582**
Financial investments	**483,417**	**152**	-	**483,569**
Other assets	-	**10,569**	**25,633**	**36,202**
Total financial assets	**483,417**	**10,721**	**1,837,148**	**2,331,286**
Total non-financial assets				**24,301**
Total assets				**2,355,587**
Due to banks	-	-	**63,774**	**63,774**
Deposits from customers	-	**232,610**	**1,673,161**	**1,905,771**
Other liabilities	-	**4,337**	**48,628**	**52,965**
Total financial liabilities	-	**236,947**	**1,785,563**	**2,022,510**
Total non-financial liabilities				**5,591**
Total liabilities				**2,028,101**

Accounting classifications and fair values as at 31 December 2019

	Financial assets and liabilities at FVOCI	Financial assets and liabilities at FVTPL	Financial assets and liabilities at amortised cost	Total
	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	-	-	281,186	281,186
Due from banks	-	-	205,595	205,595
Loans and advances to customers - net	-	-	1,502,734	1,502,734
Financial investments	485,950	2,135	-	488,085
Other assets	-	2,789	41,502	44,291
Total financial assets	485,950	4,924	2,031,017	2,521,891
Total non-financial assets				28,106
Total assets				2,549,997
Due to banks	-	-	54,754	54,754
Deposits from customers	-	192,146	1,879,311	2,071,457
Other liabilities	-	1,023	62,075	63,098
Total financial liabilities	-	193,169	1,996,140	2,189,309
Total non-financial liabilities				8,696
Total liabilities				2,198,005

Notes to the Financial Statements (continued)

As of 31 December 2020

25.1 Fair value information

The table below analyses financial instruments carried at fair value, by using valuation techniques.

The fair values of derivatives and certain financials investments have determined using the following hierarchy of valuation levels.

Financial instruments carried at fair value

	Valuation techniques		
	Level 1	Level 2	Total
	RO'000	RO'000	RO'000
Recurring fair value measurements			
At 31 December 2020			
Assets			
Derivatives	**-**	**10,569**	**10,569**
Financial investments at FVOCI	**225,603**	**257,814**	**483,417**
Financial investments at FVTPL	**-**	**152**	**152**
Liabilities			
Derivatives	**-**	**4,337**	**4,337**
Deposits from customers	**-**	**232,610**	**232,610**
At 31 December 2019			
Assets			
Derivatives	-	2,789	2,789
Financial investments at FVOCI	255,434	230,516	485,950
Financial investments at FVTPL	-	2,135	2,135
Liabilities			
Derivatives	-	1,023	1,023
Deposits from customers	-	192,146	192,146

Financial instruments not carried at fair value

	Valuation techniques				
	Level 1	Level 2	Level 3	Total fair value	Carrying amount
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets and liabilities					
At 31 December 2020					
Assets					
Loans and advances to customers – net					
Liabilities	**-**	**-**	**1,324,158**	**1,324,158**	**1,363,582**
Deposits from customers	**-**	**1,686,744**	**-**	**1,686,744**	**1,673,161**

	Valuation techniques				
	Level 1	Level 2	Level 3	Total fair value	Carrying amount
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets and liabilities					
At 31 December 2019					
Assets					
Loans and advances to customers – net	-	-	1,464,232	1,464,232	1,502,734
Liabilities					
Deposits from customers	-	1,868,348	-	1,868,348	1,879,311

Other financial instruments not carried at fair value are typically short-term in nature and re-priced to current market rates frequently. Accordingly, their carrying amounts are reasonable approximation of their fair values.

Notes to the Financial Statements (continued)
As of 31 December 2020

Loans and advances to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include forward looking discounted cash flow models using assumptions which the bank believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the reporting date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the reporting date.

Financial investments and derivatives

Fair value is based on quoted market prices at the reporting date. 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 market prices. The market value adjustment of foreign exchange contracts are classified as other assets or other liabilities.

Deposit by banks and customer deposits

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand approximates its carrying value.

26 Notes on the statement of cash flows

26(a) Non-cash items included in profit before tax	Notes	2020	2019
		RO'000	RO'000
Changes in fair value of financial investments measured at fair value through profit and loss	12	105	33
Change in expected credit losses and other credit impairment charges	5	17,978	3,427
Depreciation and impairment of property and equipment	15	11,096	2,484
(Gain) / loss on disposal of property and equipment	4	290	(547)
Amortisation and impairment of intangible assets	7	4,303	1,211
Net loss / (gain) on sale of financial investments	4	336	-
Amortisation of financial investment	12	(96)	(3,075)
Employer's current service cost with interest	18(a)	198	219
Effect of currency translation		-	(397)
		34,210	3,355

Notes to the Financial Statements (continued)
As of 31 December 2020

26(b) Change in operating assets

	2020	2019
	RO'000	RO'000
Change in loans and advances to customers-net	**121,887**	(116,602)
Change in other assets	**7,006**	(8,608)
	128,893	(125,210)

26(c) Change in operating liabilities

	2020	2019
	RO'000	RO'000
Change in deposits from customers	**(165,686)**	145,332
Change in other liabilities	**(9,828)**	16,286
	(175,514)	161,618

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

	2020	2019
	RO'000	RO'000
Statement of financial position items comprise:		
Cash and balances with central bank (note 10(a))	**220,485**	281,186
Due from banks (note 10(b))	**227,448**	205,595
Financial investments - original maturities of three months or less	**415,548**	365,361
Due to banks (note 16)	**(63,774)**	(54,754)
	799,707	797,388

27 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.

Notes to the Financial Statements (continued)
As of 31 December 2020

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 year is as follows:

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
As at 31 December 2020					
Loans and advances	**-**	**-**	**385**	**89,402**	**89,787**
Current, deposit and other accounts	**-**	**2,877**	**386**	**11,236**	**14,499**
Letters of credit and guarantees	**-**	**143,198**	**-**	**14,600**	**157,798**
Acceptances	**-**	**-**	**-**	**990**	**990**
Due from banks	**-**	**67,825**	**-**	**-**	**67,825**
Due to banks*	**-**	**20,832**	**-**	**-**	**20,832**
Collateral received	**-**	**71,521**	**-**	**-**	**71,521**
For the year ended 31 December 2020					
Net interest income	**-**	**(199)**	**-**	**3,513**	**3,314**
Net fee income**	**-**	**(448)**	**-**	**249**	**(199)**
Other operating expenses	**-**	**(14,773)**	**(19)**	**(1,432)**	**(16,224)**
Purchase of property and equipment	**-**	**-**	**-**	**(13)**	**(13)**

*Due to banks includes vostro balances of RO17.4 million from HSBC affiliates and accrual of RO3.4 million for the expenses payable to HSBC affiliates as of 31 December 2020.

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

	Parent entity	Other related group entities	Directors	Others	Total
	RO'000	RO'000	RO'000	RO'000	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
For the year ended 31 December 2019					
Net interest income	-	402	-	2,450	2,852
Net fee income**	-	(685)	-	399	(286)
Other operating expenses	-	(13,506)	(20)	(1,425)	(14,951)
Purchase of property and equipment	-	-	-	(24)	(24)

*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.

**Net fee income includes fee expenses of RO1.1 million incurred for the indemnity received as a collateral from HSBC affiliates.

Notes to the Financial Statements (continued)
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The bank entered into the following transactions with HSBC affiliated noting that the underlying customers of these transactions were not related parties.

	2020	2019
	RO'000	RO'000
Sale of loans and advances	127,820	-
Fees paid in lieu of deposit raising activities	582	-
Purchase of loans and advances	-	14,577

Compensation of key management personnel

	2020	2019
	RO'000	RO'000
Wages, salaries and other short term benefits	1,696	1,917
Post-employment benefits	160	73
	1,856	1,990

Balances with key management personnel

	2020	2019
	RO'000	RO'000
Loans and advances	166	214
Current, deposit and other accounts	320	513

28 Distribution by economic sector

The table below analyses the concentration of gross loans and advances by economic sector:

	2020	2019
	RO'000	RO'000
Personal and consumer loans	448,877	494,310
Corporate and commercial		
Import trade	137,007	201,678
Construction	81,835	89,122
Manufacturing	169,992	206,833
Wholesale and retail trade	60,988	79,073
Electricity, gas, water, transportation and communication	94,288	85,811
Services	113,743	116,860
Mining and quarrying	40,278	169,153
Others	282,662	132,879
	980,793	1,081,409
Financial Institutions	-	7,743
Total gross loans and advances	1,429,670	1,583,462
Allowance for ECL	(52,672)	(38,776)
Reserved interest	(13,416)	(41,952)
Net loans and advances	1,363,582	1,502,734
Non-performing loans - gross	50,587	70,767

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The table below analyses the concentration of letters of credit and guarantees commitments by economic sector:

	2020	2019
	RO'000	RO'000
Import trade	28,290	43,745
Construction	86,926	95,944
Financial institutions	151,211	133,555
Manufacturing	19,888	13,683
Wholesale and retail trade	5,193	9,037
Electricity, gas, water, transportation and communication	170,263	202,836
Services	65,926	64,957
Mining and quarrying	34,633	1,630
Others	31,135	66,634
Total	**593,465**	632,021

29 Operating segment

The factors used to identify the Bank's reporting segments are discussed in the 'Summary of significant accounting policies' in note 2.1 (g).

	31 December 2020				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	12,183	27,265	14,798	(472)	53,774
- Internal	2,973	2,096	(5,187)	118	-
	15,156	29,361	9,611	(354)	53,774
Net fee income	2,434	2,644	3,133	(143)	8,068
Net trading income	2,897	2,016	4,005	-	8,918
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(105)	(105)
Other operating (loss) / income	(123)	(194)	(113)	(147)	(577)
Total operating income	20,364	33,827	16,636	(749)	70,078
Change in expected credit losses and other credit impairment charges	(5,598)	(3,065)	(9,315)	-	(17,978)
Net operating income	14,766	30,762	7,321	(749)	52,100
Total operating expenses	(13,755)	(34,798)	(7,663)	(4,772)	(60,988)
(Loss) / Profit before tax	1,011	(4,036)	(342)	(5,521)	(8,888)
Reportable segment assets	1,082,064	626,057	541,313	106,153	2,355,587
Reportable segment liabilities	1,003,946	620,588	381,316	22,251	2,028,101

Notes to the Financial Statements (continued)
As of 31 December 2020

	31 December 2019				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	10,129	29,546	21,091	(225)	60,541
- Internal	7,914	240	(7,687)	(467)	-
	18,043	29,786	13,404	(692)	60,541
Net fee income	2,559	4,726	3,827	(150)	10,962
Net trading income	6,112	3,204	5,197	(15)	14,498
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	(33)	(33)
Other operating income	(6)	3	41	594	632
Total operating income	26,708	37,719	22,469	(296)	86,600
Change in expected credit losses and other credit impairment charges	(4,919)	2,966	(1,474)	-	(3,427)
Net operating income	21,789	40,685	20,995	(296)	83,173
Total operating expenses	(12,404)	(29,586)	(6,257)	(229)	(48,476)
Profit before tax	9,385	11,099	14,738	(525)	34,697
Reportable segment assets	1,103,829	686,475	656,646	103,047	2,549,997
Reportable segment liabilities	1,204,010	593,120	373,779	27,096	2,198,005

30 Dividend per share

The Board of Directors at the forthcoming Ordinary Annual General meeting will not propose a cash dividend for the year 2020 considering the unprecedented circumstances and the financial performance (2019: cash dividend of RO 0.0087 per share of nominal value of RO 0.100 each amounting to RO17.4 million).

31 Risk management

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks that the Bank is exposed to are retail and wholesale credit risk (including cross-border country risk), market risk (predominantly foreign exchange and interest rate risks), and liquidity & funding risk and strategic risk (including reputational risk and pension risks). The Bank is also exposed to operational non-financial risk in various forms (including Resilience risk, Financial Crime & Fraud Risk, People risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting & Tax risks and Model Risks.

The risk profiles of the Bank change constantly under the influence of a wide range of factors. The risk management framework established by the Bank fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interdependencies.

This section provides details of the Bank's exposure to risk and describes the methods used by management to manage risk.

31.1 Risk governance and ownership

An established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at the Bank and business level. The risk management framework applies to all the types of risk we face, ensures we manage risk consistently across the Bank and ensures we identify risks, have sufficient controls in place to manage them and grow our business safely and within our appetite and deliver fair outcomes for customers and maintain the orderly and transparent operation of financial markets.

The Board has ultimate responsibility for the effective management of risk and approves the Bank's risk appetite framework, plans and performance targets for the group and its principal operating subsidiaries, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures. The Audit and Risk Committees are responsible for advising the Board on material risk matters and providing non-executive oversight of risks. Under authority delegated by the Board, the separately convened Risk Management Meeting ('RMM') oversees the implementation of risk appetite and controls. The RMM together with the Asset and Liability Committee ('ALCO') monitors all categories of risk, receives reports on actual performance and emerging issues, determines action to be taken and reviews the efficacy of the Bank's risk management framework.

The Chief Risk Officer ('CRO'), supported by the RMM, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework. The CRO, who is the chairperson of RMM and reports to the Board Risk Committee chairman, heads the Risk Function, which is independent from the businesses and forms part of the second line of defence.

Day to day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in identifying and managing risk within the scope of their roles. These roles are defined using the three lines of defence model. The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them. The second line of defence challenges the first line of defence on effective risk management and provides advice and guidance in relation to risk. The third line of defence is the internal audit.

31.2 Risk appetite

Risk appetite, a key component of the group's risk management framework, is approved by the Board and defines the types and levels of risk that the Bank is willing to take in order to achieve our strategic objectives. The Bank's risk appetite is set out in the Risk Appetite Statement and is central to the annual planning process. The risk appetite statement consists of qualitative and quantitative metrics covering financial and non-financial risk.

Measurements against the metrics serve to:

- guide underlying business activity, ensuring it is aligned to risk appetite statements;
- determine risk-adjusted remuneration;
- enable the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identify business decisions needed to mitigate risk.

31.3 Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending and trade finance, but also from off-balance sheet products such as guarantees and from the Bank's holdings of debt and other securities. Credit risk generates the largest regulatory capital requirement of the risks the Bank incurs.

Credit risk management

The principal objectives of our credit risk management are:

- To maintain a strong culture of responsible lending, and robust risk policies and control frameworks
- To both partner and challenge our business in defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- To ensure there is independent, expert scrutiny of credit risk, their costs and their mitigation.

The Wholesale and Retail Risk functions report to the CRO. Their responsibilities include:

- Formulating and recording detailed credit policies and procedures, consistent with local regulations and HSBC Group policy.
- Issuing policy guidelines on appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain high-risk sectors.
- Undertaking independent reviews and objective assessment of risk. Wholesale Risk assesses all commercial non-bank credit facilities and exposures prior to the facilities being committed to customers or transactions being undertaken. Above certain designated limits exposures require Board approval and HSBC Group concurrence.
- Monitoring the performance and management of portfolios.
- Maintaining policy on large credit exposures, ensuring that concentrations of exposure by counterparty or sector do not become excessive in relation to the Bank's capital base and remain within regulatory and internal limits.
- Maintaining the governance and operation of the Bank's risk rating framework and systems, to classify exposures taking into account regulatory requirements.
- Reporting on retail portfolio performance, high risk portfolios, risk concentrations, country limits and cross-border exposures, large impaired accounts, impairment allowances and stress testing results and recommendations to the Risk Management Meeting, the Audit and Risk Committees and the Board of Directors.
- Acting on behalf of the Bank as the primary interface, for credit-related issues, with external parties.

The Bank implements credit policies, procedures and lending guidelines that meet local requirements and conform to the HSBC Group standards.

Credit quality of financial instruments

The Bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed

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regularly and any amendments are implemented promptly.

Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

Special attention is paid to problem exposures in order to accelerate remedial action. The Bank uses a specialist unit to manage non-performing accounts and provide customers with support in order to help them avoid default wherever possible.

Periodic risk-based audits of the Bank's credit processes and portfolios are undertaken by an independent function.

Impairment assessment

It is the Bank's policy to create allowances for impaired loans and advances promptly and consistently.

For details of impairment policies on loans and advances and financial investments, see note 2.2 in these financial statements. When impairment losses occur, the Bank reduces the carrying amount of loans and advances through the use of an allowance account.

Write-off of loans and advances

Loans are normally written off, either partially or in full, when there is no realistic prospect of further recovery. For secured loans and advances, write-off generally occurs after receipt of any proceeds from the realisation of security.

Unsecured personal facilities, including credit cards, are generally written off at the end of the month in which the account becomes 180 days contractually delinquent.

In the event of bankruptcy or analogous proceedings, write off may occur earlier than at the periods stated above. Collections procedures may continue after write off.

Cross-border exposures

Cross border exposures are subject to limits which are centrally managed by the HSBC Group and are subject to HSBC Group approval concurrence.

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 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. It remains unclear how the economic and social environment will evolve through 2021 and we continue to monitor the situation closely.

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. The Central Bank of Oman (CBO) introduced a series of measures to protect the stability of country's economy including deferral of loan instalments for the affected borrowers.

Macro-Economic forecast and probability weights:

Expected credit loss impairment allowances recognised in the financial statements 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 year ended 31 December 2020. The Bank applied 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 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.

Accounting for modification loss

The interest accrued during the deferral period will be collected from the customer (where applicable) through extending the original maturity period of the loan or by increasing the instalments at the end of the Deferral Period. The Bank has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not resulted in derecognition of financial assets. The impact of day one modification loss was not considered material for the period.

Stage-wise analysis of customers benefiting from payment deferrals

The following table provides a summary of the deferred amount of principal outstanding and accrued pertinent to loans and advances of the customers, who have been provided with such benefits, and the related ECL:

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As of 31 December 2020

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Loans and advances to customers benefiting from payment deferrals	**19,081**	**68,564**	**1,630**	**89,275**
ECL on loans and advances to customers benefiting from payment deferrals	**186**	**2,608**	**255**	**3,049**
Of Which:				
Deferred amount	**8,244**	**3,305**	**1,398**	**12,947**

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

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

	Gross carrying / nominal amount (net of reserved interest)	**Allowance for ECL**	Gross carrying / nominal amount (net of reserved interest)	Allowance for ECL
	2020	**2020**	2019	2019
	RO'000	**RO'000**	RO'000	RO'000
Cash and balances with central bank	**220,726**	**(241)**	281,385	(199)
Due from banks	**227,618**	**(170)**	205,647	(52)
Loans and advances to customers				
- WPB	**447,429**	**(9,570)**	493,033	(7,975)
- Wholesale	**968,825**	**(43,102)**	1,048,477	(30,801)
Other assets	**22,149**	**(167)**	34,282	(52)
Total gross carrying amount on balance sheet	**1,886,747**	**(53,250)**	2,062,824	(39,079)
Loans and other credit related commitments	**691,218**	**(4,580)**	722,562	(2,754)
Total nominal amount off balance sheet	**691,218**	**(4,580)**	722,562	(2,754)

	Fair value	**Memorandum Allowance for ECL**	Fair value	Memorandum Allowance for ECL
	2020	**2020**	2019	2019
	RO'000	**RO'000**	RO'000	RO'000
Financial investments at FVOCI	**483,217**	**(811)**	485,950	(99)

The following table provides an overview of the Bank's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2020

Gross Exposure	Gross Exposure				Allowances / Provision for ECL				ECL coverage %			
	Stage1	Stage 2	Stage 3	Total	Stage1	Stage 2	Stage 3	Total	Stage1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers (net of reserved interest)	837,124	540,435	38,695	1,416,254	(8,587)	(17,723)	(26,362)	(52,672)	1.03%	3.28%	68.13%	3.72%
Due from banks	227,618	-	-	227,618	(170)	-	-	(170)	0.07%	-	-	0.07%
Other financial assets measured at amortised cost	71,210	171,665	-	242,875	(54)	(354)	-	(408)	0.08%	0.21%	-	0.17%
Loans and other credit related commitments	72,095	25,658	-	97,753	(195)	(1,140)	(10)	(1,345)	0.27%	4.44%	-	1.38%
Financial guarantees and similar contracts	374,059	217,518	1,888	593,465	(574)	(1,835)	(826)	(3,235)	0.15%	0.84%	43.75%	0.55%
At 31 December 2020	1,582,106	955,276	40,583	2,577,965	(9,580)	(21,052)	(27,198)	(57,830)	0.61%	2.20%	67.02%	2.24%

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Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2019

Gross Exposure	Gross Exposure				Allowances / Provision for ECL				ECL coverage %			
	Stage1	Stage 2	Stage 3	Total	Stage1	Stage 2	Stage 3	Total	Stage1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers (net of reserved interest)	999,556	511,524	30,430	1,541,510	4,618	13,247	20,911	38,776	0.46%	2.59%	68.72%	2.52%
Due from banks	205,647	-	-	205,647	52	-	-	52	0.03%	-	-	0.03%
Other financial assets measured at amortised cost	309,846	5,821	-	351,667	240	11	-	251	0.08%	0.20%	-	0.08%
Loans and other credit related commitments	74,238	16,303	-	90,541	517	833	-	1,350	0.70%	5.11%	-	1.49%
Financial guarantees and similar contracts	499,080	131,870	1,071	632,021	133	647	624	1,404	0.03%	0.49%	58.26%	0.22%
At 31 December 2019	2,088,367	665,518	31,501	2,785,386	5,560	14,738	21,535	41,833	0.27%	2.21%	68.37%	1.50%

Measurement uncertainty and sensitivity analysis of ECL estimates

Expected credit loss impairment allowances recognised in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios described below. The recognition and measurement of ECL involves the use of significant judgment and estimation. It is necessary to formulate multiple forward looking 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 judgment, which may result in using alternative or additional economic scenarios and/or management adjustments.

Methodology for Developing Forward Looking Economic Scenarios

The Bank in general use three economic scenarios representative of HSBC's view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments. In 2020, and due to the economic effects of Covid-19 outbreak, the Bank applied four forward-looking global scenarios. They represent a 'most likely outcome', (the Central scenario) and three, less likely, 'outer' scenarios referred to as the Upside and Downside and Additional Downside scenarios. The probability weight between Other scenarios and Central scenario was fixed with the Central scenario being assigned a weighting of 70%, the Downside scenario 20% and the Upside and Additional Downside 5% each (three economic scenarios in 2019: The Central scenario's weight was 80% and 10% for each Outer scenario).

For the Central scenario, Bank sets key assumptions such as GDP growth, world oil price and UAE Investment. An external vendor's global macro model, which is conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This vendor model is subject to HSBC's risk governance framework with oversight by a specialist internal unit.

Upside and downside scenarios are designed to be cyclical in that GDP growth, world oil price and UAE Investment usually revert back to the Central after the first three years for major economies. The Central, Upside and Downside scenarios selected with reference to external forecast distributions using the above approach are termed the 'Consensus Economic Scenarios'.

The Additional Downside scenario reflects management's view of extreme risks. This scenario assumes that a number of the Bank's top risks crystallise simultaneously and results in an extremely severe and prolonged recession.

Wholesale analysis

HSBC at group level has developed a globally consistent methodology for the application of economic scenarios into the calculation of ECL by incorporating those scenarios into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, the Bank considers the correlation of economic guidance to default rates for a particular industry. For LGD calculations we consider the correlation of economic guidance to collateral values and realisation rates for a particular industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, the Bank incorporates economic scenarios proportionate to the probability-weighted outcome and the central scenario outcome for non-stage 3 populations.

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL coverage of financial instruments at 31 December 2020[2]	2020	2019
Reported ECL (RO in million)	**24.0**	14.5
Gross carrying / nominal amount (RO in million)[3]	**2,580.7**	2,753.1
Reported ECL coverage (percentage)	**0.93%**	0.53%
Coverage ratio by scenario (percentage)		
Consensus Upside scenario	**0.74%**	0.46%
Consensus Downside scenario	**1.23%**	0.60%
Consensus Additional downside scenario	**2.30%**	-
Consensus Central scenario	**0.86%**	0.52%

1. Excludes ECL and financial instruments relating to defaulted obligors.
2. Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.

3. Includes low credit risk financial instruments such as Debt instruments at FVOCI, which have low ECL coverage ratios under all the above scenarios.

Retail analysis

HSBC has developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historic relationships between observed default rates and macro-economic variables are integrated into ('IFRS 9 ECL') estimates by leveraging economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on (LGD) is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by leveraging national level forecasts of the house price index ('HPI') and applying the corresponding LGD expectation.

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL coverage of loans and advances to customers at 31 December 2020[2]	2020	2019
Reported ECL (RO in million)	**9.6**	8.0
Gross carrying amount (RO in million)	**448.9**	494.3
Reported ECL coverage (percentage)	**2.13%**	1.62%
Coverage ratio by scenario (percentage)		
Consensus Upside scenario	**1.92%**	1.74%
Consensus Downside scenario	**1.58%**	1.57%
Consensus Additional downside scenario	**2.02%**	-
Consensus Central scenario	**1.48%**	1.19%

1. ECL sensitivities exclude portfolios utilising less complex modelling approaches

2. ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied

Economic scenarios sensitivity analysis of ECL estimates

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward looking economic conditions as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting ECL.

Maximum exposure to credit risk

The Bank's exposure to credit risk is spread across a broad range of asset classes, including derivatives, trading assets, loans and advances to customers, due from banks, and financial investments.

The following table presents the Bank's maximum exposure to credit risk from on balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk, it is generally the full amount of the committed facilities.

The offset in the table relate to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

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Maximum exposure to credit risk	31 December 2020			31 December 2019		
	Maximum exposure	Offset	Net	Maximum exposure	Offset	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
On balance sheet						
Derivatives	10,569	-	10,569	2,789	-	2,789
Loans and advances to customers held at amortised cost						
- WPB	437,859	-	437,859	485,058	-	485,058
- Wholesale	925,723	(200,187)	725,536	1,017,676	(20,116)	997,560
Balances with central bank (note 10(a))	185,774	-	185,774	252,879	-	252,879
Due from banks (note 10 (b))	227,448	-	227,448	205,595	-	205,595
Financial investments	483,569	-	483,569	488,085	-	488,085
Other assets	45,529	-	45,529	65,958	-	65,958
	2,316,471	(200,187)	2,116,284	2,518,040	(20,116)	2,497,924
Off balance sheet						
Financial guarantees and similar contracts	593,465	(1,254)	592,211	632,021	(2,882)	629,139
Loans and other credit related commitments	583,588	-	583,588	665,421	-	665,421
Total	3,493,524	(201,441)	3,292,083	3,815,482	(22,998)	3,792,484

Collateral and other credit enhancements

Although collateral can be an important mitigants of credit risk, it is the Bank's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. However, for other lending decisions a charge over collateral is obtained and is considered in determining the credit decision and pricing. In the event of default, the Bank may utilise the collateral as a source of repayment.

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2020	2019
	RO'000	RO'000
Property	150,121	149,709
Equity	19	311
Fixed deposits	201,441	22,998
Vehicle	2,500	4,889
Guarantees	71,521	145,579
Total	425,602	323,486

The table below presents an analysis of financial investments as at 31 December 2020 and 2019:

	2020	2019
	RO'000	RO'000
Unrated equity investments	352	2,385
Sovereign securities	483,217	485,700
Total	483,569	488,085

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The table below presents an analysis of due from banks and balances with central bank as at 31 December 2020, based on Fitch and Standard & Poor's ratings or equivalent.

	2020	2019
	RO'000	RO'000
Sovereign	**186,015**	253,078
A	**-**	29,317
A+	**65,976**	20,629
A-	**19,675**	137
AA	**38,500**	-
AA-	**1,068**	58,933
BBB+	**56,186**	58,102
BB-	**14,676**	-
Unrated	**31,537**	38,529
ECL allowances	**(411)**	(251)
Total	**413,222**	458,474

Concentration of exposure

Exposure to a person, company or group (the Single Borrower Lending Limit) is restricted to a maximum 15% of the Bank's regulatory net worth or 10% of the Bank's regulatory net worth for related parties, subject to any regulatory dispensations. In addition, the total of all facilities granted to related parties must not exceed 35% of the Bank's net worth.

	Gross loans and advances		**Due from banks**		**Financial investments**		**Balances with central bank**	
	2020	2019	2020	2019	2020	2019	2020	2019
	RO'000	RO'000	**RO'000**	RO'000	RO'000	RO'000	**RO'000**	RO'000
Concentration by sector:								
Sovereign	**235,001**	93,286	**-**	-	**483,217**	485,700	**186,015**	253,078
Corporate	**745,792**	995,866	**-**	-	**-**	-	**-**	-
Banks	**-**	-	**227,618**	205,647	**-**	-	**-**	-
Retail	**448,877**	494,310	**-**	-	**-**	-	**-**	-
Carrying amount	**1,429,670**	1,583,462	**227,618**	205,647	**483,217**	485,700	**186,015**	253,078

Credit quality of financial instruments

All loans and advances in the Bank are classified according to asset quality. Standard accounts include all facilities which demonstrate good financial condition, risk factors and capacity to pay in line with the original terms of sanction.

Credit Review and Risk Identification teams regularly review exposures and processes in order to provide an independent, rigorous assessment of the credit risk management framework, reinforce secondary risk management controls and share best practice. Internal audit, as a tertiary control function, focuses on risks with a global perspective and on the design and effectiveness of primary and secondary controls, carrying out oversight audits via the sampling of control frameworks, themed audits of key or emerging risks and project audits to assess major change initiatives. The Bank complies with all regulatory requirements as regards credit quality classification.

The five credit quality classifications defined below each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities.

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There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

Credit quality classification	Debt securities and other bills - external credit ratings	Wholesale lending – Internal credit rating	Retail lending – Internal credit rating[2]
Strong	A– and above	CRR1[1] to CRR2	Band 1 and 2
Good	BBB+ to BBB–	CRR3	Band 3
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	Band 4 and 5
Sub-standard	B– to C	CRR6 to CRR8	Band 6
Impaired	Default	CRR9 to CRR10	Band 7

1. *Customer risk rating.*
2. *12-month point-in-time ('PIT') probability weighted probability of default ('PD').*

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good' exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Impaired' exposures have been assessed as impaired. These also include retail accounts classified as Band 1 to Band 6 that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

Risk rating scales

The customer risk rating ('CRR') 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All customers are rated using the 10 grade or 23-grade scale, depending on the degree of sophistication of the Basel II approach adopted for the exposure.

Retail lending credit quality is disclosed on an IFRS 9 basis, which is based on a 12-month point-in-time ('PIT') probability weighted probability of default ('PD').

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term issue ratings are reported against the long-term rating of the issuer of those securities. If major rating agencies have different ratings for the same debt securities, a prudent rating selection is made in line with regulatory requirements.

For the purpose of the following disclosure, retail loans that are past due up to 89 days and are not otherwise classified are not disclosed within the Band to which they relate, but are separately classified as past due but not impaired.

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Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances at central bank	34,711	-	186,015	-	-	220,726	(241)	220,485
Due from banks	212,942	-	14,676	-	-	227,618	(170)	227,448
Loans and advances to customers (net of reserved interest)	545,833	151,611	651,172	28,943	38,695	1,416,254	(52,672)	1,363,582
Financial investments – FVOCI	179,247	-	303,970	-	-	483,217	(811)	482,406
Other assets - acceptances	143	1,046	20,960	-	-	22,149	(167)	21,982
At 31 December 2020 (on balance sheet)	**972,876**	**152,657**	**1,176,793**	**28,943**	**38,695**	**2,369,964**	**(54,061)**	**2,315,903**
Loan and other credit related commitments for loans and advances to customers	74,684	7,486	14,792	791	-	97,753	(1,345)	96,408
Financial guarantee and similar contracts	283,731	133,343	169,140	5,363	1,888	593,465	(3,235)	590,230
At 31 December 2020 (off balance sheet)	**358,415**	**140,829**	**183,932**	**6,154**	**1,888**	**691,218**	**(4,580)**	**686,638**

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances at central bank	28,307	253,078	-	-	-	281,385	(199)	281,186
Due from banks	205,647	-	-	-	-	205,647	(52)	205,595
Loans and advances to customers (net of reserved interest)	262,293	805,578	412,829	36,704	24,106	1,541,510	(38,776)	1,502,734
Financial investments – FVOCI	234,736	-	251,214	-	-	485,950	(99)	485,851
Other assets - acceptances	118	10,618	22,737	809	-	34,282	(52)	34,230
At 31 December 2019 (on balance sheet)	731,101	1,069,274	686,780	37,513	24,106	2,548,774	(39,178)	2,509,596
Loan and other credit related commitments for loans and advances to customers	70,679	10,442	8,535	885	-	90,541	(1,350)	89,191
Financial guarantee and similar contracts	320,284	220,805	80,747	9,114	1,071	632,021	(1,404)	630,617
At 31 December 2019 (off balance sheet)	390,963	231,247	89,282	9,999	1,071	722,562	(2,754)	719,808

Distribution of financial instruments to which the impairment requirement in IFRS 9 are applied, by credit quality stage allocation

	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Gross carrying amount on balance sheet								
- stage 1	**851,564**	**131,938**	**635,458**	**209**	**-**	**1,619,169**	**(9,704)**	**1,609,465**
- stage 2	**121,312**	**20,719**	**541,335**	**28,734**	**-**	**712,100**	**(17,995)**	**694,105**
- stage 3	**-**	**-**	**-**	**-**	**38,695**	**38,695**	**(26,362)**	**12,333**
Nominal amount off balance sheet								
- stage 1	**341,102**	**35,123**	**69,284**	**645**	**-**	**446,154**	**(769)**	**445,385**
- stage 2	**17,313**	**105,706**	**114,648**	**5,509**	**-**	**243,176**	**(2,975)**	**240,201**
- stage 3	**-**	**-**	**-**	**-**	**1,888**	**1,888**	**(836)**	**1,052**
At 31 December 2020	**1,331,291**	**293,486**	**1,360,725**	**35,097**	**40,583**	**3,061,182**	**(58,641)**	**3,002,541**

	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Gross carrying amount on balance sheet								
- stage 1	619,732	836,386	544,057	824	-	2,000,999	(5,009)	1,995,990
- stage 2	111,369	232,888	142,723	30,365	-	517,345	(13,258)	504,087
- stage 3	-	-	-	6,324	24,106	30,430	(20,911)	9,519
Nominal amount off balance sheet								
- stage 1	351,344	174,778	45,843	1,353	-	573,318	(650)	572,668
- stage 2	39,619	56,469	43,439	8,646	-	148,173	(1,480)	146,693
- stage 3	-	-	-	-	1,071	1,071	(624)	447
At 31 December 2019	1,122,064	1,300,521	776,062	47,512	25,177	3,271,336	(41,932)	3,229,404

Past due but not impaired gross financial instruments

Past due but not impaired gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria. This is typically when a loan is less than 90 days past due and there are no other indicators of iimpairment.

Further examples of exposures past due but not impaired include individually assessed mortgages that are in arrears more than 90 days, but there are no other indicators of impairment and the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year or short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation but there is no concern over the creditworthiness of the counterparty. When groups of loans are collectively assessed for impairment, collective impairment allowances are recognised for loans classified as past due but not impaired.

The following table provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired.

	2020	2019
	RO'000	RO'000
Loans and advances to customers held at amortised cost		
Past due 1-30 days	**11,645**	11,592
Past due 31-60 days	**5,793**	1,297
Past due 61-89 days	**942**	3,141
Total	**18,380**	16,030

Impaired loans

Impaired and stage 3 loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay their credit obligations in full without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Bank.
- Retail loans and advances classified as Band 7. These grades are typically assigned to retail loans and advances more than 90 days past due unless individually they have been assessed as not impaired.
- Renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

31.4 Liquidity and funding

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

Liquidity and funding risk management framework

The objective of the Bank's liquidity and funding risk framework ('LFRF') management is to allow it to withstand severe liquidity stresses. It is designed to be adaptable to changing business models and regulations.

The LFRF is delivered using the following key aspects:

- minimum LCR requirement depending on inherit liquidity risk ('ILR') categorisation;
- minimum NSFR requirement depending on ILR categorization;
- Single currency liquidity management
- Forward looking funding status assessment
- Analysis of off-balance sheet commitments
- Asset encumbrance
- depositor concentration limit;
- Liquidity funds transfer pricing
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from bank, deposits from non-bank financial institutions and securities issued;
- Contingency Funding Plan, and

- Individual Liquidity Adequacy Assessment and liquidity stress testing

The management of the LFRF is implemented in accordance with the limits and practices set by the Board and the HSBC Group and is in line with the guidelines provided by the CBO.

Liquidity and funding for the year ended 2020

The liquidity position of the Bank remained strong as of 31 December 2020. As per LFRF framework Bank's Liquidity Coverage Ratio ('LCR') as of 31 December 2020 was 345% (2019: 290%) and Net Stable Funding Ratio ('NSFR') as of 31 December 2020 was 135% (2019: 135%).

The Bank also calculates the LCR and NSFR as per the CBO requirement. The Bank's LCR ratio as of 31 December 2020 was 215% (31 December 2019: 200%) and NSFR ratio as of 31 December 2020 was 147% (31 December 2019: 144%).

Detailed computation of LCR and NSFR as per the CBO requirement has been disclosed separately in note 33 of these financial statements.

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLAs consist of cash or assets that can be converted into cash at little or no loss of value in markets.

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

Sources of funding

The current accounts, savings deposits and term deposits are the Bank's primary source of funding. The Bank places considerable importance on the stability of these deposits.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial investments, as required by the LFRF. Loans and other advances to customers and due from banks continued to exceed deposits by banks.

31.5 Market risk management

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Bank's status as a premier provider of financial products and services.

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity and commodity prices will reduce the Bank's income or the value of its portfolios.

The Bank is required to assess the market risks which arise on each product in its business and to transfer these risks to its Global Markets unit for management. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to professionally manage such risks.

Derivative financial instruments

Derivative financial instruments used by the Bank include swaps, forwards and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, or other market forces. Derivatives are individually negotiated over-the-counter contracts (referred to as OTC-products). A description of the main types of derivative instruments used by the Bank is set out below.

Swaps

Swaps are over-the-counter agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Bank is interest rate swaps. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Bank is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates of the contract and the Bank covers the market risk by entering into offsetting transactions.

Forwards

Forward contracts are commitments to either purchase or sell a designated financial instrument, or currency, at a specified future date for a specified price and may be settled in cash or another financial asset. Forwards are individually-traded over-the-counter contracts. Forward contracts result in credit exposure to the counterparty. Forward contracts result in exposure to market risk based on changes in market prices relative to contracted amounts. The market risk on such transaction is managed within pre- approved limits.

Value at risk ('VaR')

VaR is a measure that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Bank, 99 per cent). The Bank calculates VaR daily. The VaR model used by the Bank is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series which would naturally take into account inter-relationships between different market rates, for example between interest rates and foreign exchange rates.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations.

For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding year assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding year may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognises these limitations by augmenting its VaR limits with other position and sensitivity limit structures. The VAR for Global Markets was as follows:

	2020	**Average**	**Maximum**	**Minimum**	2019	Average	Maximum	Minimum
	RO'000	**RO'000**	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000
Total VAR	**136**	**179**	**707**	**27**	187	109	195	0
Trading VAR	**49**	**51**	**107**	**6**	37	26	60	3

Trading

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR, together with stress and sensitivity testing and concentration limits.

Other controls include restricting individual operations to trading within a list of pre-approved permissible instruments, and enforcing rigorous new product approval procedures.

Non-trading

The principal objective of market risk management of non-trading portfolios is to optimise net interest income. Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as result of interest rate changes. Analysis of this risk is complicated by having to make behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts, in order to manage this risk optimally. Market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the auspices of the ALCO. ALCO regularly reviews that these portfolios are managed within pre-approved interest risk limits.

Currency risk

As a risk control mechanism limits are put in place for foreign exchange open positions. Positions are managed and monitored on an ongoing basis by the Treasury. Periodical reporting is made to ALCO who deliberate on the issue and give necessary guidance to the Treasury.

The Bank had the following net exposures denominated in foreign currencies as at 31 December:

	Overall exposure in RO' 000	
	2020	2019
Currency		
US Dollars	**19,687**	22,359
Pound Sterling	**21**	48
Euro	**37**	31
Japanese Yen	**29**	2
UAE Dirhams	**65**	65
Indian Rupee	**-**	-
Other currencies	**1,148**	27
Total exposure	**20,987**	22,532

31.6 Legal risk

The Bank implements processes and procedures in place to manage legal risk that conform to HSBC Group standards. Legal risk falls within the definition of operational risk and includes the risk of a member of the group suffering financial loss, legal or regulatory action or reputational damage due to:

- Contractual risk, which is the risk that the Bank enters into inadequate or unenforceable customer contracts or ancillary documentation, inadequate or unenforceable non-customer contracts or ancillary documentation and/or contractual fiduciary;
- Dispute adjudication risk, which is the risk arising due to an adverse dispute environment or a failure to take appropriate steps to defend, prosecute and/or resolve actual or threatened legal claims brought against or by the Bank, including for the avoidance of doubt, regulatory matters;
- Legislative risk, which is the risk that the Bank fails to or is unable to identify, analyse, track, assess or correctly interpret applicable legislation, case law or regulation, or new regulatory, legislative or doctrinal interpretations of existing laws or regulations, or decisions in the Courts or regulatory bodies;
- Non-contractual rights risk, which is the risk that the Banks's assets are not properly owned or protected or are infringed by others, or a group member infringes another party's rights; and
- Non-contractual obligations risk, which is the risk arising due to infringement of third-party rights and/or breach of common law duties.

The Bank has a legal function to assist management in controlling legal risk. The function provides legal advice to manage and control legislative, contractual and non-contractual risks and support in managing litigation claims and significant regulatory enforcement against group companies, as well as in respect of non-routine debt recoveries or other litigation against third parties.

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, HSBC considers that none of these matters are material. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2020. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority, which was replaced by a Direction issued by the UK Financial Conduct Authority ("FCA") in 2013, and again in July 2020, and consented to a cease-and-desist order with the US Federal Reserve Board ("FRB"), both of which contained certain forward-looking anti-money laundering ("AML") and sanctions-related obligations. HSBC Holdings agreed to retain an independent compliance monitor to produce annual assessments of the Group's AML and sanctions compliance programme (the "Skilled Person/Independent Consultant"). In December 2012, HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions. HSBC's engagement with the Skilled Person appointed pursuant to the 2013 Direction was terminated in February 2020 and a new Skilled Person with a narrower mandate has been appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. A new Independent Consultant is also being appointed to continue to carry out an annual OFAC compliance review at the FRB's discretion.

In January 2021, HSBC Holdings exited its three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. HSBC Holdings entered into the FX DPA in January 2018, following the conclusion of the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, the DoJ is expected to file a motion to dismiss the charges deferred by the FX DPA in due course.

HSBC Holdings and/or certain of its affiliates are subject to a number of other investigations and reviews by various regulators and competition and law enforcement authorities, as well as litigation, in connection with various matters relating to the firm's businesses and operations.

31.7 Operational risk management

The Bank defines operational risk as "the risk to achieving strategy or objectives as a result of

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As of 31 December 2020

inadequate or failed internal processes, people and systems, or from external events".

A formal governance structure provides oversight over the management of operational risk. The Risk Management Meeting convenes monthly to discuss operational risk issues and the effectiveness of internal controls.

In order to manage operational risks, the Bank has an Operational Risk Management Framework (ORMF), which includes adoption of the Three Lines of Defense risk governance framework:

1) The First Line of Defense owns the operational risks. They are responsible for identifying, recording, reporting and managing risks, and ensuring that the right controls and assessments are in place to mitigate these risks. Most of the Bank's people are in The First Line of Defense, including Risk Owners, Control Owners and Business Risk & Control Managers (BRCMs).

2) The Second Line of Defense sets policy and guidelines for managing operational risk, and provides advice and guidance on effective risk management. The Second Line are risk management specialists comprising Risk Stewards and the Operational Risk Function.

3) The Third Line of Defense is Internal Audit who independently ensure that the Bank is managing operational risk effectively.

A centralized database is used to record the results of the operational risk management process. Operational risk and control assessments, and losses, are input and maintained by the business units. Management is responsible for implementing the required standards of operational risk control throughout their operations and where deficiencies are evident, rectifying them within a reasonable timeframe.

The Bank maintains and tests contingency facilities to support operations in the event of unforeseen disasters.

31.8 Compliance risk management

Compliance risk is the risk that the Bank fails to observe the relevant laws and regulations imposed by the various governing authorities and regulators where the Bank operates. Failure to comply with regulations may lead not only to penalties and financial losses but is also detrimental to the reputation and long term prosperity of any organization.

The Bank's management is primarily responsible for managing the compliance risks that the Bank is exposed to and is supported by the Compliance department in discharging this duty within the various business units. The compliance function in the Bank is set up in accordance with the CBO guidance on compliance function for banks issued in 2006 and facilitates the management of compliance risk by:

- Setting policies and standards to cover compliance issues.
- Advising management, the business and other parts of the Bank, the impact of applicable regulations on their business, activity or behavior.
- Providing, an independent reporting mechanism for all executives.
- Fostering an open and transparent relationship with the regulators in Oman.
- Managing the relationship with the Bank's regulators including coordination of all contact, coordination of all regulatory submissions, monitoring and control of regulator's access to HBON's premises, staff and materials.
- Report immediately to the Risk Committee of the Board and relevant senior management on all material or significant breaches of which they are aware as soon as practicable and issue half-yearly certificates, outlining any breaches, to the Central Bank and quarterly to CMA.

31.9 Capital management

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. Banks are required to maintain minimum capital adequacy ratio of 12.25% including capital conservation buffer for 2020 (2019: 13.50%) 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.

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As of 31 December 2020

The Bank's regulatory capital position at 31 December was as follows:

	2020	2019
	RO'000	RO'000
Common Equity Tier 1 capital ('CET 1') / Tier 1 capital		
Ordinary share capital	**200,031**	200,031
Legal reserve	**45,944**	45,944
Retained earnings	**79,822**	87,997
Regulatory adjustments to CET1	**(4,725)**	(3,672)
CET 1/Tier 1 capital	**321,072**	330,300
Additional Tier 1 capital (AT1)	**-**	-
Total Tier 1 capital (T1 = CET1+AT1)	**321,072**	330,300
Tier 2 capital (T2)		
ECL allowance – Stage 1	**9,839**	5,660
ECL allowance – Stage 2	**12,761**	8,843
Total	**22,600**	14,503
Total regulatory capital	**343,672**	344,803
Risk-weighted assets		
Banking book	**1,465,063**	1,650,896
Operational risk	**160,451**	165,983
Market risk	**22,234**	17,703
Total risk-weighted assets	**1,647,748**	1,834,582
Capital ratios		
CET 1 / Tier 1 capital ratio	**19.49%**	18.00%
Total capital ratio	**20.86%**	18.79%

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As of 31 December 2020

If the bank would not have applied the prudential filter as explained above, the Capital adequacy ratio for 31 December 2020 would have been as below:

	2020	2019
	RO'000	RO'000
Common Equity Tier 1 capital ('CET 1') / Tier 1 capital		
Ordinary share capital	**200,031**	200,031
Legal reserve	**45,944**	45,944
Retained earnings	**79,822**	87,997
Regulatory adjustments to CET1	**(4,725)**	(3,672)
CET 1/Tier 1 capital	**321,072**	330,300
Additional Tier 1 capital (AT1)	**-**	-
Total Tier 1 capital (T1 = CET1+AT1)	**321,072**	330,300
Tier 2 capital (T2)		
ECL allowance – Stage 1	**9,839**	5,660
ECL allowance – Stage 2	**8,642**	8,843
Total	**18,481**	14,503
Total regulatory capital	**339,553**	344,803
Risk-weighted assets		
Banking book	**1,465,063**	1,650,896
Operational risk	**160,451**	165,983
Market risk	**22,234**	17,703
Total risk-weighted assets	**1,647,748**	1,834,582
Capital ratios		
CET 1 / Tier 1 capital ratio	**19.49%**	18.00%
Total capital ratio	**20.61%**	18.79%

32 Corresponding figures

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

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As of 31 December 2020

33 Other Information

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 (2019: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR ratio as of 31 December 2020 was 217% (31 December 2019: 200%)

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

		31 December 2020	
		Total Unweighted Value (average*)	Total Weighted Value (average*)
		RO'000	RO'000
High quality liquid assets			
1	Total High quality liquid assets (HQLA)		657,754
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	622,243	46,034
3	- Stable deposits	323,811	16,191
4	- Less stable deposits	298,432	29,843
5	Unsecured wholesale funding, of which:	931,049	408,825
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	- Non-operational deposits (all counterparties)	931,049	408,825
8	- Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	64,649	6,375
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	64,649	6,375
14	Other contractual funding obligations	4,467	4,467
15	Other contingent funding obligations	1,161,364	58,068
16	**Total cash outflows (2+5+10+14+15)**	-	**523,769**
Cash inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	229,868	216,392
19	Other cash inflows	4,442	4,442
20	**Total cash inflows (17+18+19)**	**234,310**	**220,834**
21	**Total HQLA**	-	**657,754**
22	**Total net cash outflows (16-20)**	-	**302,935**
23	**Liquidity coverage ratio (21/22)**	-	**217%**

*simple average of daily observations over the last three months (October – December 2020).

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Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio 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 Banks are required to maintain minimum NSFR ratio of 100% in accordance with CBO stipulated guidelines. The Bank's NSFR ratio as of 31 December 2020 was 147% (31 December 2019: 144%)

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

	Available Stable funding (ASF) items	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
		RO'000	RO'000	RO'000	RO'000	RO'000
1	Capital:	350,087	-	-	-	350,087
2	Regulatory capital	348,397	-	-	-	348,397
3	Other capital instruments	1,690	-	-	-	1,690
4	Retail deposits and deposits from small business customers	582,059	11,717	7,447	14,017	570,857
5	Stable deposits	314,663	71	45	-	299,040
6	Less stable deposits	267,396	11,646	7,402	14,017	271,817
7	Wholesale funding:	812,857	162,214	86,304	292,930	823,617
8	Operational deposits	63,774	-	-	-	31,887
9	Other wholesale funding	749,083	162,214	86,304	292,930	791,730
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	28,111	27,157	1,054	1,348	-
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	28,111	27,157	1,054	1,348	-
14	**Total ASF**	-	-	-	-	1,744,561
	Require Stable Funding (RSF) items					
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	24,161
16	Deposits held at other financial institutions for operational purposes	43,350	-	-	-	21,675
17	Performing loans and securities:	352	615,513	38,286	876,633	1,014,017
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	-	161,591	14,676	-	32,776
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	-	444,631	22,783	767,695	892,318
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	40,255	26,166
22	Performing residential mortgages, of which:	-	1,291	827	108,938	62,452
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	1,291	827	94,458	61,398

Notes to the Financial Statements (continued)
As of 31 December 2020

24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	**352**	**-**	**-**	**-**	**299**
25	Assets with matching interdependent liabilities	**-**	**-**	**-**	**-**	**-**
26	Other Assets:	**23,549**	**27,327**	**-**	**14,879**	**66,809**
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	**-**			**6,232**	**6,232**
30	NSFR derivative liabilities before deduction of variation margin posted	**-**			**-**	**-**
31	All other assets not included in the above categories	**23,549**	**21,095**	**1,054**	**14,879**	**60,577**
32	Off-balance sheet items	**-**	**683,332**	**69,619**	**424,103**	**58,853**
33	TOTAL RSF	**-**	**-**	**-**	**-**	**1,185,514**
34	**NET STABLE FUNDING RATIO (%)**					**147.16**

Notes to the Financial Statements (continued)
As of 31 December 2020

Leverage ratio

Leverage ratio is guided by the CBO through circular BM 1157 (Guidelines on implementation on Basel III leverage ratio). Leverage ratio is calculated on quarterly intervals and reported to the CBO. The standard for Leverage ratio become effective from 31 December 2018 with a minimum ratio of 4.5%. The Bank's leverage ratio as of 31 December 2020 was11.4% (31 December 2019 – 10.9%)

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

	Item	As at 31.12.2020 RO'000
1	Total consolidated assets as per published financial statements	**2,355,587**
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	**13,365**
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)	**449,359**
7	Other adjustments	**(4,405)**
8	**Leverage ratio exposure**	**2,813,906**

Table 2: Leverage ratio common disclosure template

	Item	As at 31.12.2020
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**2,355,587**
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	**(4,405)**
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	**2,351,182**
	Derivative Exposures	
4	Replacement cost associated with *all* derivatives transactions (i.e., net of eligible cash variation margin)	**10,569**
5	Add-on amounts for PFE associated with *all* derivatives transactions	**2,796**
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)**	**13,365**
	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	**1,177,053**
18	(Adjustments for conversion to credit equivalent amounts)	**(727,694)**
19	**Off-balance sheet items (sum of lines 17 and 18)**	**449,359**
	Capital and total exposures	
20	**Tier 1 capital**	**321,072**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**2,813,906**
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	**11.4**