

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

Interim Condensed Financial Information

30 June 2021



**Interim Condensed Financial Information – 30 June 2021**

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**Presentation of information**

This document comprises the Interim Condensed Financial Information – 30 June 2021 for HSBC Bank Oman S.A.O.G. ('HBON') ('the Bank'). It contains Interim Condensed Financial Information (unaudited), together with the Board of Directors' Report, the Auditor's review report and the Summary of Unaudited Results.

## Board of Directors' Report for the six months ended 30 June 2021

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Bank's second Quarter financial results for 2021.

### **Performance Summary**

Our performance in the first half of 2021 shows a net profit of RO10.0 M compared with a net loss of RO3.2 M for the same period in 2020. This has been driven primarily by a reduction in the Expected Credit Losses ('ECL') and other credit impairment charges which reflects more optimism in the macro-economic environment recovery coupled with a sustained rise in the oil prices that support positive sentiment in the region. We will continue to monitor how the situation evolves throughout the remainder of 2021, with a risk that regional markets may witness a weaker market sentiment as new variants of the coronavirus across the globe threaten to derail the fragile economic recovery.

Net interest income was down 9.5% to RO24.9 M for the period ended 30 June 2021 compared with RO27.5 M for the same period in 2020. Interest income was impacted negatively by the low interest rate environment and a reduction in customer loans and advances, partly offset by lower interest expense. Net fee income increased by 9.3% to RO4.7 M for the period ended 30 June 2021, due to higher fees from advisory and trade finance business.

Net trading income was down 37.0% to RO3.4 M compared with RO5.4 M for the same period last year, mainly due to lower interest rates and swap volumes.

A net release of RO5.7 M has been reported to the Bank's ECL and other credit impairment charges compared with a net charge of RO17.3 M for the same period last year. The Bank released RO6.3 M of Wholesale ECL, partially offset by a charge in the Retail ECL of RO0.6 M. As explained above, the release was driven by an improvement in the macro-economic environment as against the prior year.

Operating expenses rose by 13.1% to RO26.7 M compared with RO23.6 M for the same period in 2020 primarily due to higher IT related expenses.

Loans and advances to customers decreased by 8.8% to RO1,333.3 M compared with RO1,461.4 M as at 30 June 2020.

Customer deposits increased by 0.4% to RO1,922.9 M compared to the same period last year. Our liquidity remains strong, as evidenced by an Advances to Deposit ratio (ADR) of 69.3% at the end of June 2021.

HBON's Capital Adequacy Ratio (CAR) stood at 21.6% as at 30 June 2021 compared with 19.0% as at 30 June 2020.

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

In Wealth and Personal Banking (WPB) the penetration of digital customers went up by 8% in 2Q 2021 vs 1Q 2021. The share of digital transactions grew by 32% YoY while low value transactions in branches reduced by 23% YoY. At the moment there are circa 150 e-processes that are successfully enabled across all channels where customers can perform banking transactions electronically.

On new customer acquisition, we launched a marketing campaign to switch to HSBC by promoting Premier and Advance flagship benefits, lending rates and credit cards. This is expected to drive the new to bank acquisition momentum following on from 1Q 2021. This was also supported by our Employee Banking Solutions program where we held c72 virtual meetings / open days with our top corporate employers in order to gain wallet share and grow our business from the top 120 employers. New acquisition from our top 120 employers grew by 71% YoY with revenues increasing by 3% from this segment.

In the Wholesale business, we signed an agreement with the SME Development Fund to provide small and medium sized enterprises (SMEs) in Oman with OMR 5 million in financing. The agreement aims to help accelerate the growth of SMEs throughout the Sultanate by giving them access to financing at an attractive rate.

The percentage of trade applications coming through our digital channels (ITS) has exceeded 90%. We are expecting to see nearly 100% digital trade applications by end of 3Q 2021 as we demise our manual trade application channels and on-board our final remaining manual customers onto the ITS platform.

The bank has acted on all of the Sultanate's debt issuances during the first half of the year, supporting the Omani economy in tapping the international finance market.

We are proud that these efforts were recognized by naming HSBC Bank Oman as the Best Investment Bank in Oman at the 2021 Euromoney Middle East Awards for Excellence, which reflects our strong position, our unrivalled ability to deliver cross-border solutions for our clients and our unique Investment Banking Coverage platform.

### **COVID-19 Update**

During this time the safety and wellbeing of our staff and customers has remained the top priority. In June we participated in the private sector vaccination drive offering vaccine to all HSBC Oman staff and their spouses across the Sultanate.

We continue to work hard to maintain seamless support and services to our customers despite the challenges. Our contingency measures ensure that critical processes continue to be maintained by leveraging our split-site operations, work transfer arrangements and extensive homeworking capabilities.

### **Conclusion**

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

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



**Sir Sherard Cowper-Coles**  
Chairman

Summary of unaudited results for the six month period ended 30 June 2021

	30 June 2021 RO'000	30 June 2020 RO'000	Change (%)
Loans and advances to customers - net	1,333,345	1,461,426	(8.8%)
Customer deposits	1,922,941	1,914,445	0.4%
Net assets	336,895	332,043	1.5%
*Net assets per share	0.168	0.166	1.2%

	Six month period ended 30 June 2021 RO'000	Six month period ended 30 June 2020 RO'000	Change (%)
Net interest income	24,901	27,483	(9.4%)
Profit / (loss) for the period	10,035	(3,201)	413.5%
**Earnings / (loss) per share (annualised)	0.010	(0.003)	433.3%
***Capital adequacy ratio (CAR)	21.61%	19.04%	2.57%

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

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

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



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

### Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Bank Oman SAOG as at 30 June 2021 and the related interim condensed statement of comprehensive income for the three-month and six-month periods then ended, and interim condensed statements of changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting', and the minimum disclosure requirements issued by the Capital Market Authority ('CMA'). Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.



Muscat, Sultanate of Oman  
28 July 2021

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**Interim condensed statement of comprehensive income for the three month and six month periods ended 30 June 2021 (unaudited)**

		Three month period ended 30 June 2021	Three month period ended 30 June 2020	Six month period ended 30 June 2021	Six month period ended 30 June 2020
	<i>Notes</i>	RO'000	RO'000	RO'000	RO'000
Interest income	3	16,441	17,507	32,605	36,658
Interest expense	4	(3,819)	(4,091)	(7,704)	(9,175)
<b>Net interest income</b>		<b>12,622</b>	13,416	<b>24,901</b>	27,483
Fee income		3,166	2,571	6,449	5,979
Fee expense		(882)	(880)	(1,700)	(1,717)
<b>Net fee income</b>		<b>2,284</b>	1,691	<b>4,749</b>	4,262
Net trading income		1,650	2,817	3,361	5,432
Changes in fair value of financial investments measured at fair value through profit and loss (FVTPL)		-	34	-	(180)
Other operating income – net		17	(8)	137	(17)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>		<b>16,573</b>	17,950	<b>33,148</b>	36,980
Change in expected credit losses and other credit impairment charges - net	5	3,532	(5,977)	5,687	(17,307)
<b>Net operating income</b>		<b>20,105</b>	11,973	<b>38,835</b>	19,673
Employee compensation and benefits		(5,636)	(5,395)	(11,661)	(11,147)
General and administrative expenses	6	(7,025)	(5,277)	(13,774)	(10,835)
Depreciation and impairment of property, equipment and right-of-use assets		(466)	(660)	(1,293)	(1,273)
Amortisation of intangible assets	7	-	(75)	-	(327)
<b>Total operating expenses</b>		<b>(13,127)</b>	(11,407)	<b>(26,728)</b>	(23,582)
<b>Profit / (loss) before tax</b>		<b>6,978</b>	566	<b>12,107</b>	(3,909)
Tax expense		(1,207)	708	(2,072)	708
<b>Profit / (loss) for the period</b>		<b>5,771</b>	1,274	<b>10,035</b>	(3,201)
<b>Other comprehensive income / (loss)</b>					
<b>Items that will be reclassified subsequently to profit or loss when specific conditions are met</b>					
Debt instruments at fair value through other comprehensive income					
-Fair value (loss) / gain		200	(782)	(600)	(143)
-Expected credit losses recognised in income statement		(19)	769	(116)	777
-Income tax		(30)	117	90	21
<b>Other comprehensive (loss) / income for the period - net of tax</b>		<b>151</b>	104	<b>(626)</b>	655
<b>Total comprehensive income / (loss) for the period</b>		<b>5,922</b>	1,378	<b>9,409</b>	(2,546)
<b>Earnings / (loss) per share – basic and diluted</b>	8				
-for the period (RO)		0.003	0.001	0.005	(0.002)
-annualised (RO)		0.012	0.003	0.010	(0.003)

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

## Interim condensed statement of financial position as at 30 June 2021 (unaudited)

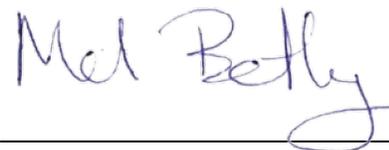
		At 30 June 2021	At 30 June 2020	Audited At 31 December 2020
	Notes	RO'000	RO'000	RO'000
<b>Assets</b>				
Cash and balances with central banks		283,175	267,798	220,485
Due from banks		234,948	175,411	227,448
Loans and advances to customers - net	9	1,333,345	1,461,426	1,363,582
Financial investments	10	449,102	420,431	483,569
Derivatives		9,978	11,948	10,569
Other assets	11	29,303	37,321	26,041
Intangible assets	12	-	1,369	-
Property and equipment	13	19,622	24,629	19,488
Deferred tax assets		4,452	2,467	4,405
<b>Total assets</b>		<b>2,363,925</b>	<b>2,402,800</b>	<b>2,355,587</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Due to banks		47,598	69,600	63,774
Deposits from customers	14	1,922,941	1,914,445	1,905,771
Derivatives		665	3,166	4,337
Other liabilities	15	50,117	81,401	50,017
Current tax liabilities		5,709	2,145	4,202
<b>Total liabilities</b>		<b>2,027,030</b>	<b>2,070,757</b>	<b>2,028,101</b>
<b>Equity</b>				
Share capital	20	200,031	200,031	200,031
Legal reserve	21(a)	45,944	45,944	45,944
Fair value through other comprehensive income (FVOCI) reserve	21(b)	1,063	1,272	1,689
Retained earnings		89,857	84,796	79,822
<b>Net equity</b>		<b>336,895</b>	<b>332,043</b>	<b>327,486</b>
<b>Total liabilities and equity</b>		<b>2,363,925</b>	<b>2,402,800</b>	<b>2,355,587</b>
<b>Off-balance sheet items:</b>				
<b>Contingent liabilities and commitments</b>				
Documentary credits		60,342	53,907	82,622
Guarantees and performance bonds		472,506	524,121	510,843
Others	16	920,413	1,183,531	1,001,567
		<b>1,453,261</b>	<b>1,761,559</b>	<b>1,595,032</b>

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

The interim condensed financial information were authorised for issue on 28 July 2021 in accordance with the resolution of the Board of Directors.



Sir Sherard Cowper-Coles  
Chairman



Melika Betley  
Chief Executive Officer

Interim condensed statement of changes in equity for the six month period ended 30 June 2021 (unaudited)

	Share capital	Legal reserve	FVOCI reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2020	200,031	45,944	617	105,400	351,992
Total comprehensive income for the period					
Loss for the period	-	-	-	(3,201)	(3,201)
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	655	-	655
Total other comprehensive income for the period	-	-	655	-	655
Total comprehensive income / (loss) for the period	-	-	655	(3,201)	(2,546)
Transaction with shareholders, recorded directly in equity					
Dividend for 2019	-	-	-	(17,403)	(17,403)
At 30 June 2020	200,031	45,944	1,272	84,796	332,043
<b>At 1 January 2021</b>	<b>200,031</b>	<b>45,944</b>	<b>1,689</b>	<b>79,822</b>	<b>327,486</b>
<b>Total comprehensive income for the period</b>					
Profit for the period	-	-	-	10,035	10,035
<b>Other comprehensive loss for the period</b>					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(626)	-	(626)
<b>Total other comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(626)</b>	<b>-</b>	<b>(626)</b>
<b>Total comprehensive (loss) / income for the period</b>	<b>-</b>	<b>-</b>	<b>(626)</b>	<b>10,035</b>	<b>9,409</b>
Transaction with shareholders, recorded directly in equity					
Dividend for 2020	-	-	-	-	-
<b>At 30 June 2021</b>	<b>200,031</b>	<b>45,944</b>	<b>1,063</b>	<b>89,857</b>	<b>336,895</b>

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

Interim condensed statement of cash flows for the six month period ended 30 June 2021  
(unaudited)

	<i>Notes</i>	Six month period ended	Six month period ended
		30 June 2021	30 June 2020
		RO'000	RO'000
<b>Cash flows from operating activities</b>			
Profit / (loss) before tax		12,107	(3,909)
Adjustments for:			
-non-cash items included in profit before tax	25(a)	(4,335)	19,118
-change in operating assets	25(b)	32,581	19,831
-change in operating liabilities	25(c)	13,479	(136,575)
-tax paid		(522)	(5,241)
-retirement benefits paid		(31)	(22)
<b>Net cash generated from / (used in) operating activities</b>		<b>53,279</b>	<b>(106,798)</b>
<b>Cash flows from investing activities</b>			
Purchase of financial investments		(74,894)	(45,415)
Proceeds from maturity of financial investments		135	58,125
Purchase of property and equipment	13	(861)	(1,634)
Investment in intangible assets (software)		-	(123)
<b>Net cash (used in) / generated from investing activities</b>		<b>(75,620)</b>	<b>10,953</b>
<b>Cash flows used in financing activities</b>			
Dividends paid		-	(17,403)
<b>Net change in cash and cash equivalents</b>		<b>(22,341)</b>	<b>(113,248)</b>
Cash and cash equivalents at the beginning of the period		799,707	797,388
<b>Cash and cash equivalents at the end of the period</b>	25(d)	<b>777,366</b>	<b>684,140</b>

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

**1 Legal status and activities**

HSBC Bank Oman S.A.O.G. ('the Bank' or 'HBON') is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman. The registered address of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, Sultanate of Oman. The Bank has its shares listed on Muscat Stock Exchange ('MSX').

HSBC Middle East Holdings BV ('HMEH') holds 51% of the shares in HBON. The ultimate parent company of HBON is HSBC Holdings plc, which is incorporated in England.

**2 Basis of preparation and accounting policies**

**2.1 Basis of preparation**

**(a) Compliance with International Financial Reporting Standards**

The interim condensed financial information of the Bank has been prepared in accordance with IAS 34 'Interim Financial Reporting' ('IAS 34') as issued by the International Accounting Standards Board ('IASB'), the disclosure requirements set out in the Rules for Disclosure and Proforma issued by the Capital Market Authority ('CMA'), the Commercial Companies Law of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman ("CBO").

The interim condensed financial information should be read in conjunction with the audited financial statements of the Bank as at and for the year ended 31 December 2020 prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, the disclosure requirements of CMA and the applicable regulations of the CBO.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

**(b) Presentation of information**

The functional currency of the Bank is Rial Omani ("RO"), which is also the presentation currency used in the interim condensed financial information of the Bank.

**(c) Corresponding figures**

This interim condensed financial information include corresponding figures information as required by IAS 34 and as stipulated in the CMA proforma.

**(d) Use of estimates and assumptions**

The preparation of the interim condensed financial information in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgment is necessarily applied are those which relate to the impairment of financial assets at amortised cost, impairment of non-financial assets and the valuation of financial instruments.

**(e) Future accounting developments**

Information on future accounting developments and their potential effect on the financial statements of the Bank are provided in the Annual Report and Accounts 2020.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021. None of these are expected to have a significant effect on the interim condensed financial information of the Bank.

**(f) Segment analysis**

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

**Products and services**

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

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

**2.2 Accounting policies**

The accounting policies applied by the Bank in this interim condensed financial information are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2020.

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

**3 Interest income**

Interest bearing assets earned interest at an overall annualised rate of 3.19% for the six month period ended 30 June 2021 (30 June 2020 – 3.45%).

	Six month period ended 30 June 2021	Six month period ended 30 June 2020
	RO'000	RO'000
Loans and advances to customers	28,453	33,277
Financial investments	2,333	2,165
Due from banks	321	868
Others	1,498	348
<b>Total</b>	<b>32,605</b>	<b>36,658</b>

**4 Interest expense**

For the six month period ended 30 June 2020, the average overall annualised cost of funds was 0.78% (30 June 2020 – 0.89%).

	Six month period ended 30 June 2021	Six month period ended 30 June 2020
	RO'000	RO'000
Deposits from customers	(7,457)	(9,016)
Due to banks	(170)	(88)
Others	(77)	(71)
<b>Total</b>	<b>(7,704)</b>	<b>(9,175)</b>

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

	Six month period ended 30 June 2021	Six month period ended 30 June 2020
	RO'000	RO'000
Loans and advances to customer (note 9)	4,929	(14,847)
Due from banks	147	(4)
Loan commitment and guarantees	363	(1,148)
Other financial assets	132	(531)
Financial investments at FVOCI	116	(777)
<b>Total</b>	<b>5,687</b>	<b>(17,307)</b>

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

**6 General and administrative expenses**

	Six month period ended 30 June 2021	Six month period ended 30 June 2020
	RO'000	RO'000
Marketing and advertising*	(699)	(838)
Premises and equipment	(1,439)	(1,309)
Communications	(406)	(183)
Insurance	(569)	(566)
Other administrative expense	(10,661)	(7,939)
<b>Total</b>	<b>(13,774)</b>	<b>(10,835)</b>

\*Marketing and advertising expenses for the current period include the RO0.5 M of "Mandoos Prize" draw expenses (30 June 2020: RO0.6 M).

**7 Amortisation of intangible assets**

	Six month period ended 30 June 2021	Six month period ended 30 June 2020
	RO'000	RO'000
Software	-	(327)

**8 Earnings / (loss) per share – basic and diluted**

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

	Six month period ended 30 June 2021	Six month period ended 30 June 2020	Year ended 31 December 2020
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Profit / (loss) for the period / year (RO'000)	10,035	(3,201)	(8,211)
<b>Earnings / (loss) per share – basic and diluted (RO)</b>			
- for the period / year	<b>0.005</b>	(0.002)	(0.004)
- annualised	<b>0.010</b>	(0.003)	(0.004)

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

9 Loans and advances to customers - net

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
Overdrafts	132,450	193,677	157,030
Credit cards	30,436	21,689	27,809
Loans	1,147,983	1,255,040	1,168,280
Clean import loans	68,115	82,670	65,834
Bills discounted / purchased	11,519	4,393	10,717
<b>Gross loans and advances</b>	<b>1,390,503</b>	<b>1,557,469</b>	<b>1,429,670</b>
Allowances for ECL	(42,740)	(52,810)	(52,672)
Reserved interest*	(14,418)	(43,233)	(13,416)
<b>Loans and advances (net)</b>	<b>1,333,345</b>	<b>1,461,426</b>	<b>1,363,582</b>

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

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

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
<b>At 1 January</b>	<b>52,672</b>	<b>38,776</b>	<b>38,776</b>
Net remeasurement of ECL arising from transfer of stage	8	769	1,338
Net new lending and changes to risk parameters	(3,146)	15,421	17,160
Assets written off	(6,794)	(2,156)	(4,602)
<b>At 30 June / 31 December</b>	<b>42,740</b>	<b>52,810</b>	<b>52,672</b>
ECL release / (charge) for the period / year	3,138	(16,190)	(18,498)
Recoveries	1,791	1,343	3,320
<b>Total ECL release / (charge) for the period / year</b>	<b>4,929</b>	<b>(14,847)</b>	<b>(15,178)</b>

Risk related to Covid-19

The Covid-19 outbreak and its effect on the global economy including the Sultanate of Oman have continued to impact our customers and our performance, and the future effects of the pandemic remain uncertain. The outbreak necessitated governments to respond at unprecedented levels to protect public health, support local economies and protect livelihoods.

The varying government support measures and restrictions in response to the outbreak have created additional challenges, given the rapid pace of change and significant operational demands. 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. The speed at which countries and territories are able to return to pre-Covid-19 levels of economic activity will vary based on the levels of continuing government support offered, the level of infection and access to and ability to roll out vaccines. There remains a risk of subsequent waves of infection, as evidenced by the emergence of new variants of the virus. The Bank continues to monitor the situation.

The development of Covid-19 vaccines has raised hopes of widespread immunisation being achieved across countries and government restrictions being lifted. However, there is significant divergence in the speed at which vaccines have been deployed and vaccine efficacy and side effects over various time horizons remain uncertain. Tensions have been evident and may continue to persist as countries compete for access to the array of vaccines either under development, pending approval or already approved.

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

The outbreak has also resulted in changes in the behaviors of our retail and wholesale customers, leading some to require payment holidays and others to waive or defer the payments on loan balances. Together, these factors have impacted the performance of our ECL models, requiring enhanced monitoring of model outputs and use of compensating controls. These include management judgmental adjustments based on the expert judgement of senior credit risk managers and the recalibration of key loss models to take into account the impacts of Covid-19 on critical model inputs. The continued economic uncertainty from the Covid-19 outbreak could adversely impact our revenue assumptions, notably volume growth, as well as create volatility in our ECL charges. The outlook for ECL is highly uncertain and remains dependent on the future path of the Covid-19 outbreak, including the successful deployment of vaccination programmes, and the credit quality of our loan portfolio when government stimulus and support will be withdrawn.

**Management judgmental adjustments**

The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have impacted the performance of financial models used to calculate ECL. This has required more ongoing monitoring and testing, the recalibration of some models and it has also resulted in management judgmental adjustments made to our ECL provisions. There is a risk that future actual results may differ from such judgments and assumptions.

At 30 June 2021, management judgements were applied to reflect dynamics not captured by our models. The drivers of the management judgemental adjustments continue to evolve with the economic environment. The Bank has internal governance in place to monitor management judgemental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. Wider-ranging model changes will take time to develop and need observable loss data on which models can be developed. Models will be revisited over time once the longer-term impacts of the Covid-19 outbreak are observed. Therefore, the Bank continues to anticipate significant management judgemental adjustments for the foreseeable future in 2021.

The Bank has adopted the use of multiple economic scenarios to reflect the assumptions about future economic conditions starting with three economic scenarios, based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and / or management adjustments where, in management's judgement, the consensus forecast distribution does not adequately cover the relevant risks. The key economic assumptions used to calculate the ECL are GDP growth and oil price (the key economic assumptions as at 31 December 2020 were GDP growth, oil price and UAE fixed investment).

In light of the current uncertain economic environment, an alternative Downside scenario ('Additional Downside') has been included and the scenario weighting has been re-assessed to reflect management's view of extreme risks. Central scenario has been assigned a weighting of 70%, the Downside scenario 20% and the Upside and Additional Downside 5% each (the weights of the economic scenarios as at 31 December 2020 were 70% for the Central scenario, 20% for the Downside scenario and 5% for each of the Upside and Additional Downside scenarios), according to the decision of the Bank's management. Scenarios produced to calculate ECL are discussed more in detail of note 30 of the 2020 annual report and accounts.

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

	<b>30 June 2021</b>	30 June 2020	31 December 2020
	<b>RO'000</b>	RO'000	RO'000
Balance at the beginning of the period / year	<b>13,416</b>	41,952	41,952
Reserved during the period / year	<b>1,527</b>	1,621	3,394
Released to the statement of comprehensive income	<b>(255)</b>	(214)	(438)
Written off during the period / year	<b>(270)</b>	(126)	(31,492)
Balance at the end of the period / year	<b>14,418</b>	43,233	13,416

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

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

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
0-5%	973,114	1,132,911	1,010,483
5-7%	351,467	364,650	357,767
7-10%	23,246	31,091	26,567
10-13%	3,480	3,553	3,381
More than 13%	39,196	25,264	31,472
<b>Total</b>	<b>1,390,503</b>	<b>1,557,469</b>	<b>1,429,670</b>

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

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
0-6 months	279,582	426,026	307,772
6-12 months	134,506	20,510	35,027
1-3 years	201,970	250,040	283,756
3-5 years	266,123	140,094	174,453
More than 5 years	451,164	624,756	562,574
<b>Total</b>	<b>1,333,345</b>	<b>1,461,426</b>	<b>1,363,582</b>

**Concentration of loans and advances:**

Loans and advances to customers by industry sector

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
<b>Personal and consumer loans</b>	<b>441,673</b>	<b>477,293</b>	<b>448,877</b>
<b>Corporate and commercial</b>			
Import trade	134,965	180,229	137,007
Construction	80,773	96,669	81,835
Manufacturing	181,524	192,685	169,992
Wholesale and retail trade	31,918	69,088	60,988
Electricity, gas, water, transportation and communication	78,512	96,389	94,288
Services	104,869	113,337	113,743
Mining and quarrying	44,053	163,558	40,278
Others	291,616	160,509	282,662
	<b>948,230</b>	<b>1,072,464</b>	<b>980,793</b>
<b>Financial Institutions</b>	<b>600</b>	<b>7,712</b>	<b>-</b>
<b>Total gross loans and advances</b>	<b>1,390,503</b>	<b>1,557,469</b>	<b>1,429,670</b>
ECL Allowances	(42,740)	(52,810)	(52,672)
Reserved interest	(14,418)	(43,233)	(13,416)
<b>Net loans and advances</b>	<b>1,333,345</b>	<b>1,461,426</b>	<b>1,363,582</b>
<b>Non-performing loans (NPL)</b>	<b>44,383</b>	<b>78,385</b>	<b>50,587</b>

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

As of 30 June 2021	As per CBO norms	As per IFRS 9	Difference
	RO'000	RO'000	RO'000
Impairment loss (charged) / released to profit and loss account	2,930	5,687	2,757
Provisions required*	38,521	47,944	9,423
Gross NPL ratio (percentage)	3.19%	3.19%	-
Net NPL ratio (percentage)	0.73%	0.71%	(0.02)%

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

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

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as of 30 June 2021

Assets classification as per CBO Norms (1)	Assets classification as per IFRS 9 (2)	Gross carrying amount (3) RO'000	Provision required as per CBO Norms (4) RO'000	Provisions held as per IFRS 9 (5) RO'000	Difference between	Net carrying amount (7)=(3)-(5) RO'000	Reserve interest as per CBO norms (8) RO'000
					CBO provision required and provision held (6)=(4)-(5) RO'000		
Standard	Stage 1	730,350	10,437	9,252	1,185	721,098	229
	Stage 2	598,883	6,062	9,483	(3,421)	589,400	965
	Stage 3	-	-	-	-	-	-
		1,329,233	16,499	18,735	(2,236)	1,310,498	1,194
Special mention	Stage 1	8	-	1	(1)	7	-
	Stage 2	16,158	166	2,123	(1,957)	14,035	15
	Stage 3	721	128	132	(4)	589	16
		16,887	294	2,256	(1,962)	14,631	31
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	1,322	331	780	(449)	542	78
		1,322	331	780	(449)	542	78
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	1,600	878	678	200	922	248
		1,600	878	678	200	922	248
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	41,461	20,045	20,291	(246)	21,170	12,867
		41,461	20,045	20,291	(246)	21,170	12,867
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,113,475	-	1,205	(1,205)	1,112,270	-
	Stage 2	539,705	-	3,525	(3,525)	536,180	-
	Stage 3	1,806	474	474	-	1,332	-
		1,654,986	474	5,204	(4,730)	1,649,782	-
<b>Total</b>	Stage 1	1,843,833	10,437	10,458	(21)	1,833,375	229
	Stage 2	1,154,746	6,228	15,131	(8,903)	1,139,615	980
	Stage 3	46,910	21,856	22,355	(499)	24,555	13,209
	<b>Total</b>	<b>3,045,489</b>	<b>38,521</b>	<b>47,944</b>	<b>(9,423)</b>	<b>2,997,545</b>	<b>14,418</b>

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

Restructured loans and advances (as per CBO illustrative disclosure) as of 30 June 2021

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net carrying amount RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)						
	Stage 1	42,952	430	1,197	(767)	41,755	-
Classified as performing	Stage 2	37,021	370	2,275	(1,905)	34,746	-
	Stage 3	721	128	132	(4)	589	16
Sub Total		80,694	928	3,604	(2,676)	77,090	16
	Stage 1	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-
	Stage 3	17,039	10,422	10,853	(431)	6,186	820
	Stage 1	42,952	430	1,197	(767)	41,755	-
	Stage 2	37,021	370	2,275	(1,905)	34,746	-
	Stage 3	17,760	10,550	10,985	(435)	6,775	836
<b>Total</b>	<b>Total</b>	<b>97,733</b>	<b>11,350</b>	<b>14,457</b>	<b>(3,107)</b>	<b>83,276</b>	<b>836</b>

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

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

**10 Financial investments**

Financial investments details are provided as follows:

	<b>Fair value</b>	Fair value	Fair value	<b>Carrying value*</b>	Carrying value	Carrying value	<b>Cost</b>	Cost	Cost
	<b>30 June</b>	30 June	31 December	<b>30 June</b>	30 June	31 December	<b>30 June</b>	30 June	31 December
	<b>2021</b>	2020	2020	<b>2021</b>	2020	2020	<b>2021</b>	2020	2020
	<b>RO'000</b>	RO'000	RO'000	<b>RO'000</b>	RO'000	RO'000	<b>RO'000</b>	RO'000	RO'000
<b>Marketable securities</b>									
<b>– MSX</b>									
Government bonds	<b>77,296</b>	107,556	67,670	<b>77,296</b>	107,556	67,670	<b>76,785</b>	107,096	66,617
<b>Unquoted and other investments</b>									
Treasury bills**	<b>371,589</b>	310,670	415,547	<b>371,589</b>	310,670	415,547	<b>371,618</b>	310,661	415,515
Unquoted Omani shares	<b>210</b>	260	210	<b>210</b>	260	210	<b>260</b>	260	260
Unquoted foreign shares	<b>7</b>	7	7	<b>7</b>	7	7	<b>7</b>	7	7
Investment fund units	<b>-</b>	1,938	135	<b>-</b>	1,938	135	<b>-</b>	2,879	107
	<b>371,806</b>	312,875	415,899	<b>371,806</b>	312,875	415,899	<b>371,885</b>	313,807	415,889
<b>Total</b>	<b>449,102</b>	420,431	483,569	<b>449,102</b>	420,431	483,569	<b>448,670</b>	420,903	482,506

\*ECL allowance on financial investments amounting to RO0.7 M (30 June 2020: RO0.9 M and 31 December 2020: RO0.8 M) has been recorded.

\*\*These includes the foreign quoted treasury bills of RO132.0 M (30 June 2020: RO225.7 M and 31 December 2020: RO225.6 M)

## Carrying amount of financial investments

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
<b>Financial investments measured at fair value through other comprehensive income</b>			
Treasury bills	371,589	310,670	415,547
Government bonds	77,296	107,556	67,670
Other investments	200	250	200
	<b>449,085</b>	<b>418,476</b>	<b>483,417</b>
<b>Financial investments measured at fair value through profit or loss</b>			
Equity investments	17	1,955	152
<b>Total</b>	<b>449,102</b>	<b>420,431</b>	<b>483,569</b>

## 11 Other assets

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
Acceptances	24,757	29,279	22,149
ECL on acceptances	(96)	(184)	(167)
Acceptances (net of ECL)	24,661	29,095	21,982
Prepayments and accrued income	757	689	408
Right-of-use assets	2,795	2,852	3,180
Others	1,090	4,685	471
<b>Total</b>	<b>29,303</b>	<b>37,321</b>	<b>26,041</b>

## 12 Intangible assets

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
Softwares	-	2,418	5,025
Less: amortised	-	(1,049)	(1,227)
Less: Impairment	-	-	(3,798)
<b>Total</b>	<b>-</b>	<b>1,369</b>	<b>-</b>

## 13 Property and equipment

RO0.9 M of property and equipment were added during the period (30 June 2020: RO1.6 M). Property and equipment disposed of during the period was RO0.5 M (30 June 2020:1.8 M).

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

14 Deposits from customers

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
Deposits details are as follows:			
Current and call	988,081	959,029	893,758
Savings	419,747	420,769	416,286
Time deposits	511,173	530,393	591,533
Others	3,940	4,254	4,194
<b>Total</b>	<b>1,922,941</b>	<b>1,914,445</b>	<b>1,905,771</b>

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

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
0-6 months	723,292	721,567	728,807
6-12 months	252,520	249,239	264,116
1-3 years	398,914	231,081	167,115
3-5 years	170,105	346,074	391,609
Over 5 years	378,110	366,484	354,124
<b>Total</b>	<b>1,922,941</b>	<b>1,914,445</b>	<b>1,905,771</b>

The interest rate bands of deposits are as follows:

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
0-2%	1,508,009	1,498,684	1,492,910
2-5%	414,932	415,761	412,861
<b>Total</b>	<b>1,922,941</b>	<b>1,914,445</b>	<b>1,905,771</b>

15 Other liabilities

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
Retirement benefit liability	1,484	1,396	1,389
Obligations under finance leases	2,727	2,018	3,208
Acceptances	24,757	29,279	22,149
Provisions	418	501	446
ECL on off balance sheet exposure and other commitments	4,215	3,901	4,580
Accruals and deferred income	4,354	3,789	4,973
Others	12,162	40,517	13,272
<b>Total</b>	<b>50,117</b>	<b>81,401</b>	<b>50,017</b>

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

**16 Contingent liabilities, commitments and derivatives**

	<b>30 June 2021</b>	30 June 2020	31 December 2020
	<b>RO'000</b>	RO'000	RO'000
Undrawn unconditionally cancellable commitments*	<b>535,898</b>	548,435	522,150
Undrawn unconditionally non-cancellable commitments	<b>78,840</b>	63,075	61,438
Forward foreign exchange contracts	<b>82,760</b>	383,371	195,064
Interest rate swaps	<b>222,915</b>	188,650	222,915
	<b>920,413</b>	1,183,531	1,001,567

\*Undrawn unconditionally cancellable commitments of RO130.2 M (31 December 2020: RO 98 M) are considered as part of loan commitments for IFRS 9.

As at 30 June 2021, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore the management does not consider it necessary to make any additional provisions in this regard.

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

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

	Valuation techniques		
	Level 1 RO'000	Level 2 RO'000	Total RO'000
<b>At 30 June 2021</b>			
<b>Assets</b>			
Derivatives	-	9,978	9,978
Financial investments at fair value through other comprehensive income	131,965	317,120	449,085
Financial investments at fair value through profit or loss	-	17	17
<b>Liabilities</b>			
Derivatives	-	665	665
Deposits from customers	-	235,756	235,756
<b>At 30 June 2020</b>			
<b>Assets</b>			
Derivatives	-	11,948	11,948
Financial investments at fair value through other comprehensive income	225,724	192,752	418,476
Financial investments at fair value through profit or loss	-	1,955	1,955
<b>Liabilities</b>			
Derivatives	-	3,166	3,166
Deposits from customers	-	195,698	195,698
<b>At 31 December 2020</b>			
<b>Assets</b>			
Derivatives	-	10,569	10,569
Financial investments at fair value through other comprehensive income	225,603	257,814	483,417
Financial investments at fair value through profit or loss	-	152	152
<b>Liabilities</b>			
Derivatives	-	4,337	4,337
Deposits from customers	-	232,610	232,610

**Financial investments and derivatives**

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date.

Foreign exchange contracts are valued based on the data derived from the market. The market value adjustment of foreign exchange contracts are included in the book value of other assets and other liabilities.

There has been no change to the basis of valuation of level 2 financial assets and liabilities disclosed in the latest audited financial statements of the Bank for the year ended 31 December 2020.

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

**Interbank Offered Rates ('IBOR') transition**

Throughout the first half of 2021, the bank has continued its efforts to provide the capability to offer new near risk-free rate ('RFR') products, and subsequently actively offer customers the ability to transition from Libor based products. Given that the administrator of Libor, International Benchmark Administrator ('IBA'), has confirmed the extension of the publication date of most US dollar Libor tenors until 30 June 2023, the Bank is focused on active transition away from those demising by 1 January 2022.

All of our businesses actively developed and implemented system and operational capabilities for the majority of alternative rates, such as base or prime rates, and RFR products during 2020 and first half 2021. As a result, lbor exposures that have post-2021 maturities continue to reduce, aided by market compression of lbor trades, and undertaking all new transactions in alternative rate and replacement RFR products, as market liquidity builds.

Transition discussions are actively occurring with clients and we will be led by their level of readiness, which is being tracked to ensure adequate planning for operational activities occurring in second half of 2021. Whilst contractual repapering and rebooking activities will be managed accordingly, as well as any requirements to invoke contractual fallback provisions, legislative solutions may still be required to allow for a smooth transition.

All post 2021 refinancing for demising lbors is offered on alternative rates products, and the bank has adhered to the industry milestones related to cessation of new lbor loan issuance.

Financial instruments impacted by lbor reform:

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD Libor	GBP Libor	JPY Libor	Others
At 30 June 2021	RO'000	RO'000	RO'000	RO'000
Non-derivative financial assets	197,250	-	-	-
Derivative notional contract amount	134,750	-	-	-

	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	-	-	-
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 lbor 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 beyond the date by which the reference interest rate benchmark expected to cease; and
- are recognised on the Bank's consolidated balance sheet

In March 2021, the administrator of Libor, IBA, announced that the publication date of most US dollar Libor tenors is extended from 31 December 2021 to 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This change reduces the amounts presented at 30 June 2021 in the below table as some financial instruments included at 31 December 2020 will reach their contractual maturity date prior to the extended publication dates (Comparative data have not been re-presented).

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

18 Asset liability mismatch

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

Maturities	30 June 2021			30 June 2020			31 December 2020		
	Assets		Liabilities	Assets		Liabilities	Assets		Liabilities
	RO'000	and equity RO'000	Mismatch RO'000	RO'000	and equity RO'000	Mismatch RO'000	RO'000	and equity RO'000	Mismatch RO'000
0-6 months	1,158,918	821,561	337,357	1,232,883	870,445	362,438	1,161,003	845,501	315,502
6-12 months	159,092	264,159	(105,067)	32,016	249,567	(217,551)	58,902	256,961	(198,059)
1-3 years	246,321	398,914	(152,593)	271,991	231,081	40,910	303,520	167,115	136,405
3-5 years	296,462	170,105	126,357	183,127	346,074	(162,947)	219,045	391,609	(172,564)
more than 5 years	503,132	709,186	(206,054)	682,783	705,633	(22,850)	613,117	694,401	(81,284)
<b>Total</b>	<b>2,363,925</b>	<b>2,363,925</b>	<b>-</b>	<b>2,402,800</b>	<b>2,402,800</b>	<b>-</b>	<b>2,355,587</b>	<b>2,355,587</b>	<b>-</b>

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

19 Exposure to credit risk

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

	30 June 2021		30 June 2020		31 December 2020	
	Gross carrying /nominal amount (net of reserved interest) RO'000	Allowance for ECL RO'000	Gross carrying /nominal amount (net of reserved interest) RO'000	Allowance for ECL RO'000	Gross carrying /nominal amount (net of reserved interest) RO'000	Allowance for ECL RO'000
Cash and balances with central bank	283,353	(178)	268,410	(612)	220,726	(241)
Due from banks	234,968	(20)	175,454	(43)	227,618	(170)
Loans and advances to customers						
-WPB	440,144	(9,452)	475,954	(9,964)	447,429	(9,570)
-Wholesale	935,941	(33,288)	1,038,282	(42,846)	968,825	(43,102)
Other assets	24,757	(96)	29,279	(184)	22,149	(167)
<b>Total gross carrying amount on balance sheet</b>	<b>1,919,163</b>	<b>(43,034)</b>	<b>1,987,379</b>	<b>(53,649)</b>	<b>1,886,747</b>	<b>(53,250)</b>
Loans and other credit related commitments	663,024	(4,214)	668,764	(3,901)	691,218	(4,580)
<b>Total nominal amount off balance sheet</b>	<b>663,024</b>	<b>(4,214)</b>	<b>668,764</b>	<b>(3,901)</b>	<b>691,218</b>	<b>(4,580)</b>
	Fair Value RO'000	Memorandum allowance for ECL RO'000	Fair Value RO'000	Memorandum allowance for ECL RO'000	Fair Value RO'000	Memorandum allowance for ECL RO'000
Financial investments at FVOCI	448,885	(696)	418,475	(876)	483,217	(811)

20 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 June 2020 and 31 December 2020 – 2,000,312,790 shares of RO0.100 each). The authorised share capital of the Bank is 7,500 million shares of RO 0.100 each (30 June 2020 and 31 December 2020 – 7,500 million shares of RO 0.100 each).

Major Shareholder

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

	30 June 2021	30 June 2020	31 December 2020
	Number of shares	Number of shares	Number of shares
HSBC Middle East Holdings BV	1,020,159,523	1,020,159,523	1,020,159,523

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

**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 assets measured at FVOCI.

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

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

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

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

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

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

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
<b>30 June 2021</b>					
Loans and advances	-	-	562	72,869	73,431
Current, deposit and other accounts	-	3,960	461	12,243	16,664
Letters of credit and guarantees	-	122,188	-	8,800	130,988
Acceptances	-	-	-	316	316
Due from banks	-	59,573	-	-	59,573
Due to banks*	-	17,514	-	-	17,514
Collateral received	-	62,230	-	-	62,230
<b>For the period ended 30 June 2021</b>					
Net fee income**	-	(146)	-	-	(146)
Other operating expenses	-	(8,989)	(16)	(283)	(9,288)

\*Due to banks includes Vostro balances of RO13.7 M from HSBC affiliates and accrual of RO3.8 M for the expenses payable to HSBC Affiliates as of 30 June 2021.

\*\*Net fee income includes fee expenses of RO0.3 M incurred for the indemnity received as a collateral from HSBC affiliates.

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

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

\*Due to banks includes Vostro balances of RO 14.1 M from HSBC affiliates and accrual of RO 3.8 M for the expenses payable to HSBC Affiliates as of 30 June 2020.

\*\*Net fee income includes fee expenses of RO 0.4 M incurred for the indemnity received as a collateral from HSBC affiliates.

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

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

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

	30 June 2021 RO'000	30 June 2020 RO'000	31 December 2020 RO'000
Purchase of loans and advances	48,125	-	-
Sale of loans and advances	-	-	127,820
Fees paid in lieu of deposit raising activities	-	-	582

Related party loans and advances bear interest at rates between 3% p.a. and 7% p.a. (30 June 2020: between 4.5% p.a. and 4.8% p.a.). Related party deposits bear interest at rates between 0.1% p.a. and 0.7% p.a. (30 June 2020: between 0.1% p.a. and 0.2% p.a.).



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

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

**24 Capital adequacy ratio**

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. The bank is required to maintain minimum capital adequacy ratio of 12.25% including capital conservation buffer for 2021 (30 June 2020: 12.25% and 31 December 2020:12.25%) 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 (i.e. 80% for the year 2021).

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
CET 1 / Tier 1 capital	<b>321,034</b>	325,276	321,072
Tier 2 capital (T2)	<b>13,720</b>	22,862	22,600
<b>Total regulatory capital</b>	<b>334,754</b>	348,138	343,672
Risk-weighted assets	<b>1,548,716</b>	1,828,631	1,647,748
CET 1 / Tier 1 capital ratio	<b>20.73%</b>	17.79%	19.49%
Total capital ratio	<b>21.61%</b>	19.04%	20.86%

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

If the bank would not have applied the prudential filter as explained above, the Capital adequacy ratio for 30 June 2021 works out as below;

	30 June 2021	30 June 2020	31 December 2020
	RO'000	RO'000	RO'000
CET 1 / Tier 1 capital	321,034	325,276	321,072
Tier 2 capital (T2)	13,484	18,212	18,481
<b>Total regulatory capital</b>	<b>334,518</b>	<b>343,488</b>	<b>339,553</b>
Risk-weighted assets	1,548,716	1,828,631	1,647,748
CET 1 / Tier 1 capital ratio	20.73%	17.79%	19.49%
Total capital ratio	21.60%	18.78%	20.61%

25 Cash and cash equivalents

25(a) Non-cash items included in profit before tax Notes	30 June 2021	30 June 2020
	RO'000	RO'000
Changes in fair value of financial investments measured at fair value through profit and loss	10	180
Change in expected credit losses and other credit impairment charges	5	17,307
Depreciation of property and equipment	1,293	1,273
Amortisation of intangible assets	7	327
Amortisation of discount on financial investment	(73)	(116)
Employer's current service cost with interest	127	109
Loss on disposal of property and equipment	5	38
<b>Total</b>	<b>(4,335)</b>	<b>19,118</b>

25(b) Change in operating assets	30 June 2021	30 June 2020
	RO'000	RO'000
Change in loans and advances to customers-net	35,808	24,001
Change in derivatives	591	(9,159)
Change in other assets	(3,818)	4,989
<b>Total</b>	<b>32,581</b>	<b>19,831</b>

25(c) Change in operating liabilities	30 June 2021	30 June 2020
	RO'000	RO'000
Change in deposits from customers	17,170	(157,012)
Change in derivatives	(3,672)	2,143
Change in other liabilities	(19)	18,294
<b>Total</b>	<b>13,479</b>	<b>(136,575)</b>

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

	30 June 2021	30 June 2020
	RO'000	RO'000
Interim condensed statement of financial position (unaudited) comprise:		
Cash and balances with central bank	283,175	267,798
Due from banks	234,948	175,411
Financial investments - original maturities of three months or less	306,841	310,531
Due to banks	(47,598)	(69,600)
<b>Total</b>	<b>777,366</b>	<b>684,140</b>

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

## 26 Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) is guided by the CBO through circular BM 1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). Liquidity coverage ratio is calculated on monthly intervals and reported to the CBO. The Banks are required to maintain minimum liquidity coverage ratio of 100% for 2021 (for 30 June 2020: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 30 June 2021 was 258% (30 June 2020 – 214%)

## Liquidity coverage ratio disclosure for the period ended 30 June 2021:

	30 June 2021	
	Total Unweighted Value (average*)	Total Weighted Value (average*)
	RO'000	RO'000
<b>High quality liquid assets</b>		<b>664,735</b>
1 Total High quality liquid assets (HQLA)		
<b>Cash outflows</b>		
Retail deposits and deposits from small business customers, of which:		
2 - Stable deposits	627,382	46,878
3 - Less stable deposits	317,205	15,860
4 Unsecured wholesale funding, of which:	987,704	435,170
5 - Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
6 - Non-operational deposits (all counterparties)	987,704	435,170
7 - Unsecured debt	-	-
8 Secured wholesale funding	-	-
9 Additional requirements, of which	71,600	7,046
10 - Outflows related to derivative exposures and other collateral requirements	-	-
11 - Outflows related to loss of funding on debt products	-	-
12 - Credit and liquidity facilities	71,600	7,046
13 Other contractual funding obligations	98,048	98,048
14 Other contingent funding obligations	1,096,318	54,816
15 <b>Total cash outflows (2+5+10+15)</b>		<b>641,957</b>
<b>Cash inflows</b>		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	302,481	287,725
19 Other cash inflows	97,635	97,635
20 <b>Total cash inflows (17+18+19)</b>	<b>400,117</b>	<b>385,360</b>
21 <b>Total HQLA</b>	-	<b>664,756</b>
22 <b>Total net cash outflows (16-20)</b>	-	<b>257,216</b>
23 <b>Liquidity coverage ratio (21/22)</b>	-	<b>258%</b>

\*simple average of daily observations over the last three month (Apr – Jun 2021).

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

## 27 Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio (NSFR) is guided by the CBO through circular BM 1147 (Guidelines on NSFR and NSFR disclosures). NSFR ratio is calculated on monthly intervals and reported to the CBO. The standard for NSFR became effective from 1 January 2018 with a minimum ratio of 100%. The Bank's NSFR as of 30 June 2021 was 152% (30 June 2020 – 145%)

## Net Stable Funding Ratio disclosure for the period ended 30 June 2021:

Available Stable funding (ASF) items	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1 Capital:	350,615	-	-	-	350,615
2 Regulatory capital	339,517	-	-	-	339,517
3 Other capital instruments	11,098	-	-	-	11,098
4 Retail deposits and deposits from small business customers	590,545	5,285	14,796	10,375	575,583
5 Stable deposits	312,741	42	117	-	297,254
6 Less stable deposits	277,804	5,243	14,679	10,375	278,329
7 Wholesale funding:	890,953	158,034	1,978	298,573	824,055
8 Operational deposits	47,598	-	-	-	23,799
9 Other wholesale funding	843,355	158,034	1,978	298,573	800,256
10 Liabilities with matching interdependent assets	-	-	-	-	-
11 Other liabilities:	29,594	28,208	1,606	3,378	-
12 NSFR derivative liabilities	-	-	-	-	-
13 All other liabilities and equity not included in above categories	29,594	28,208	1,606	3,378	-
<b>14 Total ASF</b>	-	-	-	-	<b>1,750,253</b>
<b>Require Stable Funding (RSF) items</b>					
15 Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	22,444
16 Deposits held at other financial institutions for operational purposes	52,795	-	-	-	26,398
17 Performing loans and securities:	217	551,505	125,921	815,288	974,209
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	-	182,172	-	-	27,326
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	-	368,201	124,827	706,080	867,051
21 - With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	35,578	23,126
22 Performing residential mortgages, of which:	-	1,132	1,094	109,208	56,521
23 - With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	1,132	1,094	85,244	55,409
-	-	-	-	-	-

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

24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	217	-	-	-	184
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	24,267	32,463	1,606	12,561	70,897
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	-	-	-	9,313	9,313
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	24,267	23,150	1,606	12,561	61,584
32	Off-balance sheet items	-	673,126	52,048	422,413	57,379
33	TOTAL RSF	-	-	-	-	1,151,327
34	<b>NET STABLE FUNDING RATIO (%)</b>	-	-	-	-	<b>152.02</b>

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

## 28 Leverage ratio

Leverage ratio is guided by the CBO through circular BM 1157 (Guidelines on implementation on Basel III leverage ratio). Leverage ratio is calculated on quarterly intervals and reported to the CBO. The standard for Leverage ratio became effective from 31 December 2018 with a minimum ratio of 4.5%. The Bank's leverage ratio as of 30 June 2021 was 11.% (30 June 2020 – 11.4%)

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

Item	As at 30.06.2021
1 Total consolidated assets as per published financial statements	2,363,925
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	11,651
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)	419,482
7 Other adjustments	(4,452)
<b>8 Leverage ratio exposure</b>	<b>2,790,606</b>

Table 2: Leverage ratio common disclosure template

Item	As at 30.06.2021
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,363,925
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(4,452)
3 <b>Total on-balance sheet exposures</b> (excluding derivatives and SFTs) (sum of lines 1 and 2)	<b>2,359,473</b>
<b>Derivative Exposures</b>	
4 Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	9,978
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions	1,673
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8 (Exempted CCP leg of client-cleared trade exposures)	-
9 Adjusted effective notional amount of written credit derivatives	-
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11 <b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>11,651</b>
<b>Securities financing transaction exposures</b>	
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14 CCR exposure for SFT assets	-
15 Agent transaction exposures	-
16 <b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	<b>-</b>
<b>Other Off-balance sheet exposures</b>	
17 Off-balance sheet exposure at gross notional amount	1,147,586
18 (Adjustments for conversion to credit equivalent amounts)	(728,104)
19 <b>Off-balance sheet items (sum of lines 17 and 18)</b>	<b>419,482</b>
<b>Capital and total exposures</b>	
20 <b>Tier 1 capital</b>	<b>321,034</b>
21 <b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>2,790,606</b>
<b>Leverage Ratio</b>	
22 <b>Basel III leverage ratio (%)</b>	<b>11.5</b>

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